648 Hitler's phenomenal success and his massive histrionic displays had their effects on an impressionable people. But one year's close acquaintance with National Socialism was sufficient to break the spell.

727 Austria was renamed the *Ostmark*, and its interests were systematically subordinated to those of the *Reich*. The most important Austrian banks and industries were placed under German control. To most Austrians it was intolerable that Vienna should become a provincial city and each of the ancient provinces a *Gau* controlled from Berlin. The difference between Prussian totalitarianism and the Austrian spirit became clear as never before, and one Viennese spoke for many when he said it was only an accident that Germans and Austrians spoke the same tongue.

When the War ended, the disillusionment of the Austrian minority was complete. Six more years of Nazi domination had confirmed the impression of the first twelve months. Failure and disaster had discredited a movement which was built up on practical success.

[186] More important was the transformation of the Austrian people as a whole. The change that started between the Wars was completed during the German occupation. By 1945 the name 'Austria', honoured by Hitler's disapproval, had gained a new significance. The Austrian people had acquired a will for independence. They had also learned much from their political experience and failures.

So when Austria was liberated by the Allied armies and the Second Austrian Republic was formed, the restored State faced the challenge of post-War problems in circumstances quite different from those in which the First Austrian Republic had confronted the problem of its existence after 1918.

Austria's difficulties in 1945 were formidable. Like most European countries, she suffered from War damage and economic dislocation. In her case were added the political and economic effects of seven years' subjection to Germany, during which there had been a complete break in administrative continuity, and industry and agriculture had been subordinated to

Hitler's War needs. In politics, the Left-Wing parties had been banned since 1933, and the Right Wing carried the stigma of an authoritarian experiment. Finally, there was the Allied occupation, an unknown element at first, which was to provide the pretext for prolonged exploitation and obstruction by the Russians.

Under these exacting conditions the Austrian Republic was still required to prove that it was a viable State, capable of successful democratic government. But in approaching their tasks the Austrian people had two great advantages that they had lacked between the Wars: clear common objectives and faith in their country's destiny.

II

Liberation

726 THE liberation of Austria was carried out from three directions very rapidly, the whole process being completed within a few weeks. On the 29th of March 1945 Soviet troops crossed the Austrian frontier from Hungary. At the beginning of May the British entered Carinthia from Italy and the Americans crossed the German frontier into the Tyrol. By the 13th of April the Russians were in control of Vienna, and before the end of the month large areas of Lower Austria and Styria had been freed. In the south and the west the British and the Americans met with very little resistance.

The speed of the liberation was due partly to the general situation. The morale of the Nazi armies was crumbling: on the 25th of April Berlin was surrounded and five days later Hitler committed suicide. But it was due also to the attitude of the Austrian people and to the work of the Austrian Resistance Movement. They made the Allied task easy and saved Austria from much damage.

Resistance groups had begun to form in Austria as early as
727 1938. During the Nazi occupation and the War the strength of
668 the opposition was shown by the large number of soldiers and civilians executed for desertion and 'treasonable' activities. The exact number will never be known, but it was probably between 15,000 and 20,000. At the Kagran rifle-range in Vienna the shooting of deserters was on the daily programme, and the number of victims reached thirty to forty a week. A chaplain who ministered to military prisoners in Vienna counted over 1,000 executions in his own area between 1940 and 1943.

These figures indicate both the strength and hazards of the resistance in Austria.

668 To organize opposition in Austria was particularly dangerous

726 A continuous stream of refugees had been crowding into Vienna from Czechoslovakia and Yugoslavia and the Austrian countryside to the east. They not only increased the number of mouths to be fed, but added dangerously to the irresponsible element in the city.

The last act of the retreating Germans will never be forgotten, nor quite forgiven, by the Viennese. St. Stephen's Cathedral, with its high-pitched roof and magnificent steeple, has dominated the centre of Vienna for centuries. Historically and spiritually it is the heart of the city. The cathedral had survived the severe air-raids of February and March 1945 with only minor damage and the loss of glass. But between the 8th and the 13th of April it was almost entirely burnt out after a long and at first successful struggle to save it. A combination of circumstances was responsible for the catastrophe: a minor bombing attack on the 8th of April, a wooden scaffolding foolishly left round one of the towers, and a wind causing a rain of sparks from surrounding fires. But two deliberate orders given by the retreating Nazis probably decided the fate of St. Stephen's. The whole fire brigade was withdrawn from the city, and shortly afterwards, on the 11th of April, German artillery opened fire on the cathedral, hitting the tower and tearing open the roof.

• 727 The Russian troops entered Vienna as victors after a long and arduous campaign. They remembered what their own country had suffered at the hands of the German invaders, and many of them did not know the difference between one German-speaking person and another. An outburst of looting and excess was therefore hardly to be avoided, so long as battle conditions continued. But the disappointment came when fighting troops were replaced by the army of occupation, and the second wave of soldiery was found to be worse than the first. The primitive behaviour of the Russians was a poor advertisement for twenty-five years of Communism. The Viennese were genuinely grateful for their liberation and prepared to greet the Russians as friends. But women, who showed their gratitude openly, soon learned to stay at home, and for many

727

weeks it was considered rash to wear a wrist-watch out of doors.

Disillusionment was increased by the proclamations issued by the Soviet Commanding General. These emphasized that the Red Army was fighting against the German occupants of the country, not against the Austrian people, and that private property and the individual rights of citizens would be respected. They were, no doubt, sincere expressions of intention. But the contrast between the intentions of the Soviet authorities and the actions of the Russian troops was not reassuring.

During the ten days' battle for Vienna the great majority of Viennese lived in their cellars or at least remained at home behind bolted doors. But a good many Austrians also took part in the orgy of plundering that was going on at the time. In every big city there is a certain section of the population to which such behaviour comes naturally. The tragedy of the situation in April 1945 was that some quite respectable citizens, who would not normally dream of thieving, helped themselves to what they could get. This was an indication of the general demoralization of the time, the desperate want that prevailed, and the chaotic conditions that made it unlikely that the barest needs could be satisfied by ordinary means.

The position during that terrible period was made very much worse by the existence of large stocks of wine and *Schnaps*. The Russian troops soon discovered this and went round calling out for wine and breaking into the cellars, after which their behaviour became correspondingly worse. When the Viennese found out what was going on, they would have been less than human had some of them not taken part in the general scramble. The owners naturally preferred that their fellow-citizens should have what there was rather than that more and more Russians should become drunk in the vicinity. So it came about that respectable Viennese were to be seen carrying home bucketfuls of *Schnaps* and liqueur.

In such circumstances mishaps could not be avoided, and one of them led to a major tragedy. Russian troops were camping in the Burgtheater, the great State Theatre that had survived

•727 the War with only a small amount of damage. They lit a fire on the stage, which they failed to extinguish. The building caught alight and, in the absence of any fire service, was soon completely burnt out. Thus a great cultural centre was destroyed owing to the negligence of a few undisciplined soldiers.

These conditions led inevitably to famine. The normal system of food distribution had been interrupted by the fighting and lack of transport. The refugees had imposed a strain on existing supplies. Fire, destruction, and looting depleted the stores, while the uncertainty encouraged hoarding of what remained.

Finally the administration and public services broke down completely. The Nazi officials in charge of the city government fled with the retreating armies. The greater part of the police and gendarmerie, being Nazis, went with them, and the remainder dispersed to their homes. For some weeks there was neither gas, nor water, nor electricity; no communications and no public transport. Thousands of human corpses were left for days unburied, and the carcasses of horses lay putrefying on the streets. The fire brigade had been ordered to withdraw to the west, and abandoned fire-engines were found lying in the fields between Vienna and Linz, when the need for them in the city was greatest. In April 1945 Vienna experienced what anarchy means in practice.

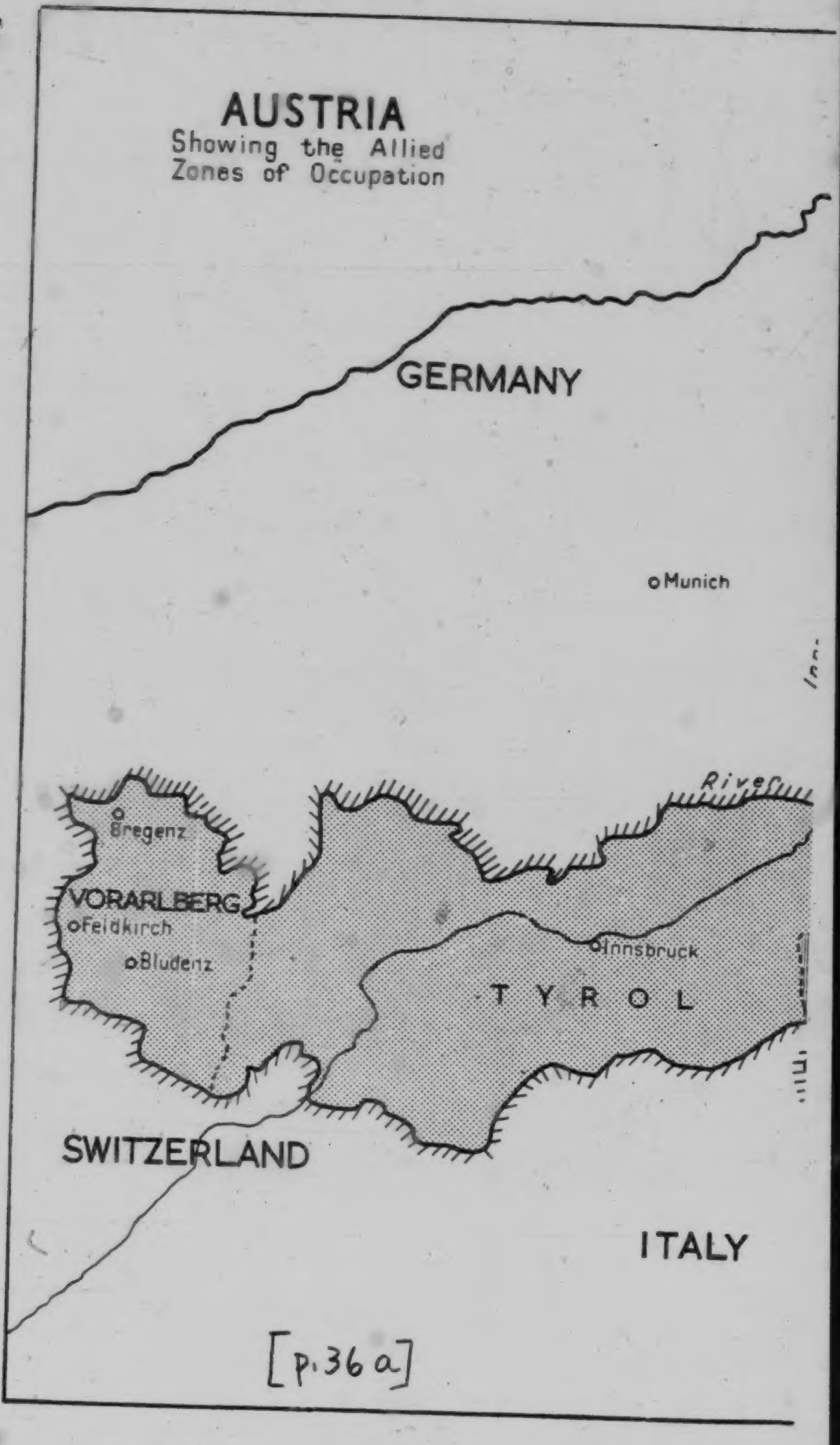
642 In this crisis it was fortunate that the right men were available and willing to take the initiative in forming some kind of provisional administration. Since the banning of their party in 1934, a number of leading Viennese Social Democrats had been living in retirement, sometimes broken by spells in prison or concentration camps. Among them were General Körner and Dr. Adolf Schärf. On the 6th of April a group of Christian Socialist leaders were suddenly released from prison after spending weeks under the daily threat of death. They included Leopold Figl and Dr. Felix Hurdes. The only official organization that was functioning on the Austrian side was the Resistance Movement which had established its headquarters in

369
631
and the contrast was accentuated by the fact that the capital was Socialist and the provinces largely Conservative. The isolation of Vienna from most of the provinces would therefore tend to revive an unhealthy animosity that years of common subjection to Berlin had done much to overcome. The Chancellor had every reason to fear such a development, because a movement for the formation of an Austrian government in the provinces occupied by the Western Allies had followed the liberation. This fortunately had failed. Had it succeeded, Austria might have shared the fate of Germany. Yet the attempt justified Dr. Renner's misgivings. Salzburg was the only province, outside Russian territory, that endeavoured to recognize the Provisional Government, and its overture to Vienna on the 24th of May led to a rebuke from the American Military Governor.

489 Conditions made it difficult to counteract separatist tendencies. The country was divided, and there were still no normal transport services between the different zones. It was easier to travel from Russian-occupied Austria to Czechoslovakia than to the Austrian western provinces; and easier to move between the cities of Salzburg and Munich, which were both occupied by the Americans, than between Salzburg and the Austrian capital. A messenger sent by Dr. Renner from Vienna to the Tyrol in May took seventeen days to make the journey and had to swim the River Enns, when he crossed the Russian frontier. An experienced member of the Resistance, well accustomed to travelling under difficulties, took a week to cover the same distance by car during the summer.

727 The Western Allies at first decided not to recognize the Provisional Government. They were suspicious of it as a Russian creation in which Communist influence was unduly strong. Fortunately events so developed that this decision was reversed.

On the 4th of July the Governments of the four occupying Powers reached an agreement in London setting up a Control Commission for Austria. It was to consist of an Allied Council, comprising the four Allied High Commissioners, an Executive Committee, and departmental staffs. Vienna was to be con-



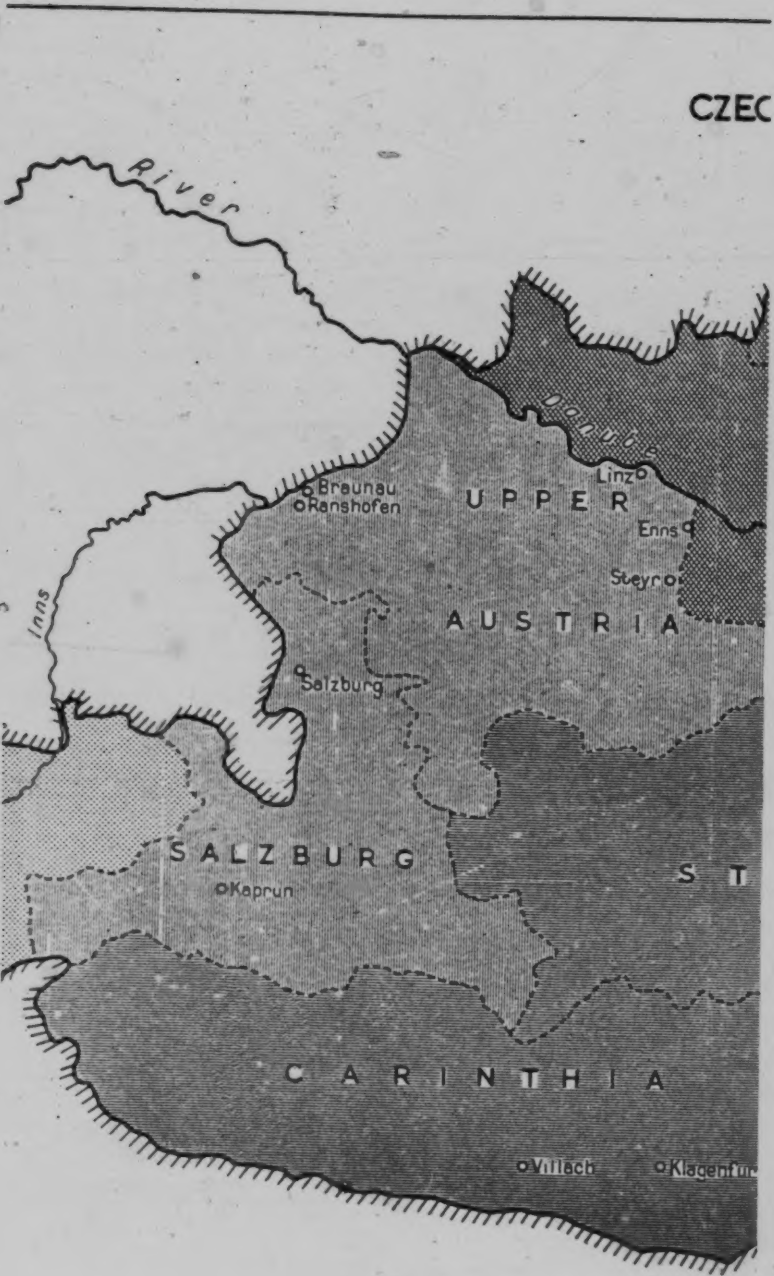
AUSTRIA

Showing the Allied
Zones of Occupation

GERMANY
Munich
Inn
River
Bregenz
VORARLBERG
Feldkirch
Bludenz
Innsbruck
TYROL
SWITZERLAND
ITALY

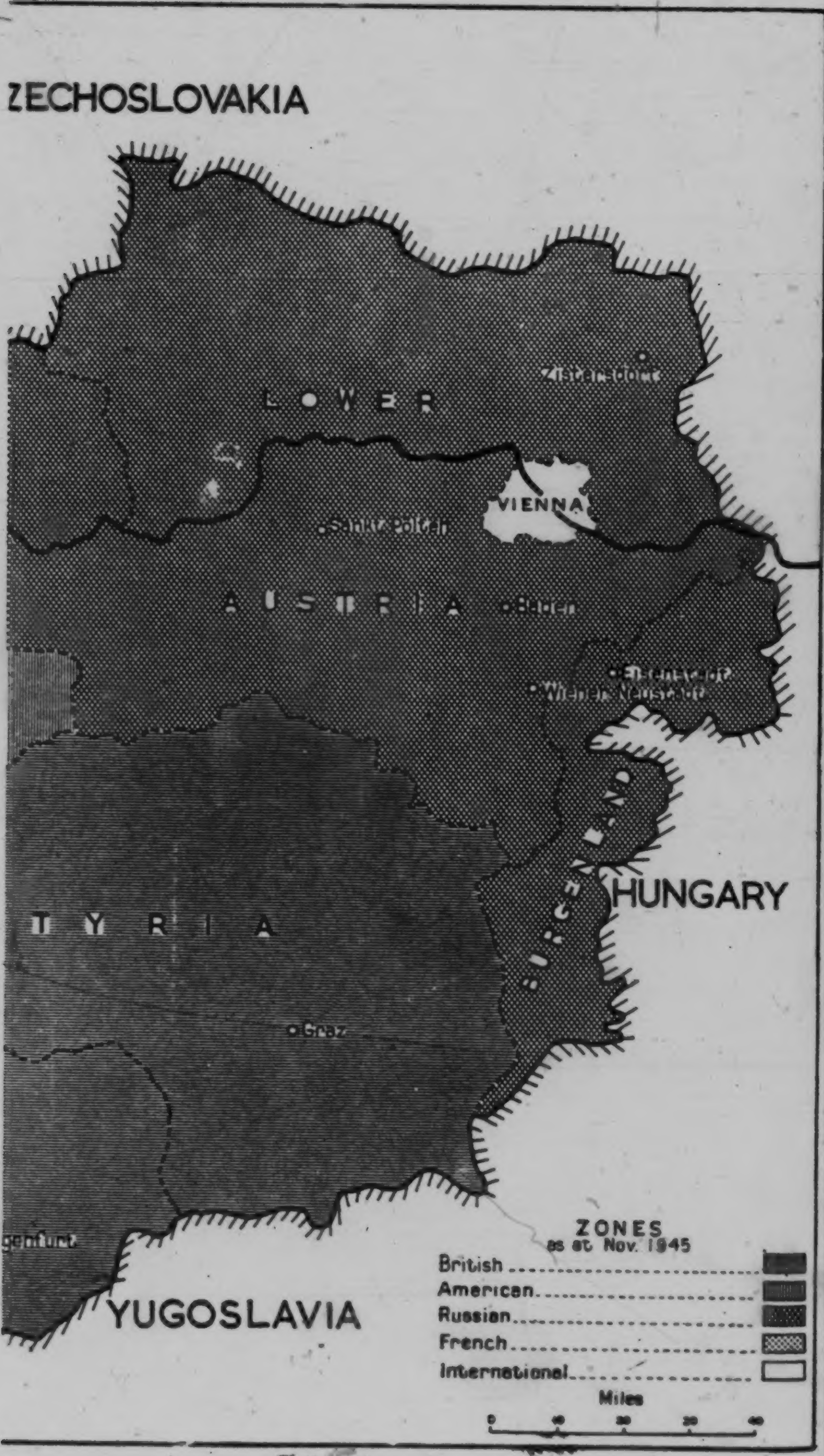
[p.36a]

727


CZEC
River
Danube
Braunau
Ranshofen
Linz
UPPER
Enns
Steyr
Inns
AUSTRIA
Salzburg
SALZBURG
Kaprun
ST
CARINTHIA
Villach
Klagenfur

[p. 36 t]

727


ZECHOSLOVAKIA
LOWER
Zistersdorf
VIENNA
Sankt Pölten
AUSTRIA
Baden
Eisenstadt
Wiener Neustadt
BURGENLAND
HUNGARY
TYRIA
Graz
genfurt
YUGOSLAVIA
ZONES
as at Nov. 1945
British
American
Russian
French
International
Miles
0
10
20
30
40

[p36c]

727 trolled by an Inter-Allied Command, consisting of the four Military Commanders of the city. Thus a government for all Austria was set up, but it was not an Austrian government. More important from the Austrian point of view was the clause in the agreement describing the main objectives of the Commission. These included the establishment, as soon as possible, of an Austrian central administration and a freely elected Austrian government.

On the 9th of July a further agreement was reached defining the Allied zones of occupation and the districts of Vienna that were to be allotted to each Power. Russia was to have Burgenland, Lower Austria, and Upper Austria north of the Danube; the United States, Salzburg and Upper Austria south of the Danube; Britain, Styria and Carinthia; and France, Tyrol and the Vorarlberg. The districts of Vienna were to be divided amongst the Powers, except for the First District or Inner City. This was to be controlled direct by the Vienna Inter-Allied Command, within which, month by month, each Power was to provide the chairman in turn.

Following these agreements the Commanders-in-Chief of the Western occupying Powers arrived in Vienna during August with their staffs. After preliminary negotiations with the Russians, the first meeting of the Allied Council was held on the 11th of September and the first meeting of the Vienna Inter-Allied Command on the 19th. At the Council meeting an important proclamation was issued to the Austrian people. It announced that the Allied Council had assumed the supreme power in matters that concerned the whole of Austria. The intention of the Moscow Declaration to re-establish a free, independent, and democratic Austria was confirmed. The most pressing tasks were described as the unification and economic restoration of the country and the elimination of the consequences of war. And the Allied authorities undertook to allow the political parties freedom to make known their political views through the Press, the radio, and public meetings, as an essential preliminary to the holding of free elections.

The arrival of the Western Allies in Vienna was timely. The

727 Russians had been in sole control for four months, and Western suspicion of their influence was growing. On the 19th of August a public ceremony took place that symbolized their position. Accompanied by the firing of hundreds of rockets, a memorial was unveiled in the Schwarzenbergplatz which represented a Russian soldier with flag and shield as the emblem of liberation. Though not objectionable in itself, its position in front of the beautiful Schwarzenberg Palace spoilt one of the finest city views in Europe. The Viennese resented its inartistic intrusion and called it the 'Unknown Plunderer'. One day, it is hoped, the Russians will transfer it to a more fitting site in the Prater, where the Red Army fought to free the city.

In spite of the proclamation of the 11th of September, the Western Allies wished to have three points settled before they recognized the Provisional Government. They wanted to be sure that it was a suitable government for the whole of Austria. They wanted to be certain it had the approval of the provinces. And it was necessary to settle between themselves and the Russians what the relationship of the Government to the Allied Council should be. Before the end of September the second point was established beyond doubt.

646 After the First World War a series of provincial conferences had been called to deal with the immensely difficult problems of the time. Dr. Renner had seen their value then, and he was convinced that they could make a valuable contribution again. Some senior Allied officers felt the same. So, with the approval of the Allied Council, whose permission was needed to allow the delegates to travel to Vienna, an all-party Provincial Conference was called for the 24th to the 26th of September. It was no coincidence that during the four previous days the People's Party held a provincial conference in Salzburg. Austrian opinion at the time was strongly in favour of country-wide co-operation.

The conference was held in the Provincial Chamber of Lower Austria in the Herrengasse. Leopold Figl, as Governor of the Province, greeted the assembled representatives by expressing the hope that they could prove to the Allies that

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

727
648

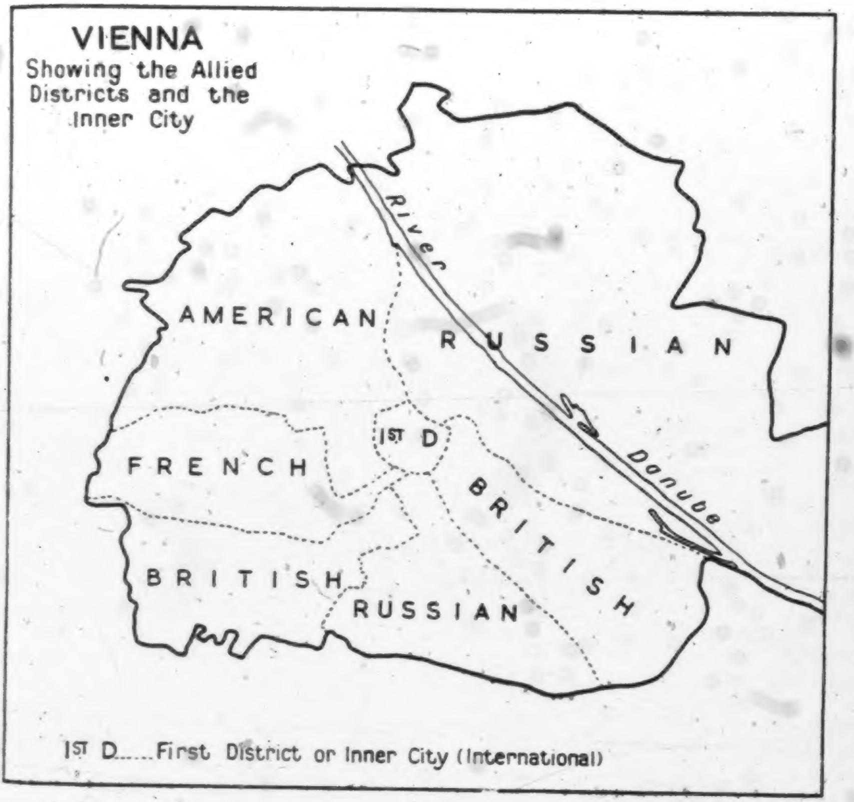
When the Western Commanders-in-Chief first arrived in Vienna, the Provisional Government was not recognized by them, and they did not at first enter into official communications with it. Before long, however, the British and American Commanders interviewed Dr. Renner and apparently satisfied themselves that he was a suitable Chancellor and no mere puppet of the Russians. They were further reassured by the results of the first Provincial Conference.

Two of the conditions necessary for recognition of the Renner Government had therefore been achieved, and the Allied Council proceeded to consider what the relationship should be between the Control Commission and an Austrian Government. At its meeting on the 1st of October it decided to recommend to the Governments of the four occupying Powers that the Provisional Government's authority should be extended to the whole of Austria and recognized, subject to certain conditions. The most important condition was that some functions of government should be reserved to the Allied Council, and this was a point on which the Four Powers could not agree.

727
648
642

On the 13th of September Dr. Renner had sent a note to the Allied Council requesting the unification of Austria, the recognition of his Government, and the holding of free elections. The Allies now decided on recognition without waiting for agreement on the question of reserved functions. During its meeting on the 20th of October Dr. Renner was summoned and informed of this decision. The main conditions of recognition were that the Provisional Government should exercise its functions subject to the guidance and control of the Allied Council as the supreme authority in Austria; that certain functions of government should be reserved to the Allied Council; that one of the main duties of the Provisional Government should be to hold free elections as early as possible, and not later than the end of the year; that the Provisional Government should be empowered to enact laws applying to the whole of Austria, provided that they were first submitted for approval to the Allied Council, and that nothing in the cond-

727


VIENNA
Showing the Allied Districts and the Inner City
AMERICAN
RUSSIAN
River Danube
1ST D
FRENCH
BRITISH
BRITISH
RUSSIAN
1ST D......First District or Inner City (International)

[p40a]

727 tions should affect the validity of any Military Government
648 legislation then in force or afterwards enacted. The Allied
642 Commission also proceeded with the task of examining, and
where possible approving, the laws and decrees issued by the Provisional Government since the 1st of May.

The formation of the Provisional Government in April had been Dr. Renner's first great service to Austria since his return to active politics. The Allied recognition of his Government marked the second stage of his achievement and was of incalculable importance to the future of the country. Without it the danger still remained that Austria might suffer lasting division and the fate of Germany. It is not surprising, therefore, that the British officer who went to fetch the Chancellor to the Allied Council meeting on the 1st of October noticed an unaccustomed nervousness on the part of this experienced, sophisticated, but deeply patriotic statesman.

666 The main task that faced the Provisional Government, after it had been recognized, was the organization of elections. An electoral law, after amendment by the second Provisional Conference, had been passed by the Government on the 19th of October and approved by the Allied Council on the 30th. It was based on the electoral law of the First Republic, modified to disfranchise Nazis and candidates for the Nazi Party, unless they could prove they had suffered political persecution under the Nazi régime. On the 27th of October the Government, in the name of all three political parties, issued an appeal to the Austrian people, calling on them in the traditional manner, as befitted a civilized and freedom-loving people, to cast their votes for one of the three democratic parties.

On the 25th of November the elections were held. They passed off in a most orderly manner, 93 per cent of the electors casting valid votes. It was generally agreed that the Austrian people were able to vote freely in accordance with their political opinions. By the end of the month no charges of fraud nor complaints from either parties or individuals had been lodged regarding the election. In view of the nature of some of the elections that took place in Central and Eastern

642
665
its advantages in a coalition where party rivalry runs high. Occasions for friction are reduced to a minimum, because every party has its due share of influence. Ministers can surround themselves with officials of their own way of thinking in the knowledge that their colleagues belonging to other parties will do the same. On the other hand, in the long run the system has serious disadvantages as well. It is the mathematical *reductio ad absurdum* of the over-organized coalition. A great strain is placed on political sincerity when party membership is known to be the key to office. Political opinions come to be the main qualifications for appointments in which technical knowledge and experience should count for most. Above all, the party aspect of political life is continuously emphasized, when it is most important it should be played down, and an atmosphere of huckstering prevails in the appointment to offices where ability and devotion to the State service are the qualities most required.

Nevertheless, in spite of weaknesses, the Coalition has succeeded and survived. On the whole, it has been a healthy influence in Austrian political life. Its dangers have been less serious than unbridled political conflict. In 1945 eleven years of authoritarian government had created a gap in Austrian political experience. Some of the new leaders had had no parliamentary experience. Those who had were mostly old and nearing the end of their careers. The new generation of politicians, however, is accustomed to compromise and collaboration. It has grown up under a Chancellor and two Presidents who put party second to the State. It has been schooled by external pressure to appreciate the value of the heritage that all political parties share.

727
642
The Coalition, however, has never had full responsibility for the government of Austria. It has been subject continuously to the authority of the Allied Control Commission made up of the four occupying Powers.

The system of supervision established on the 20th of October 1945, when the Allied Council recognized the Provisional Government, lasted for just over eight months. It involved very close control. Although the Allies could not agree on the functions to be reserved to the Council, the provision that all laws must be submitted for the Council's approval gave it the last word, so far as legislation was concerned. By the end of January 1946 nearly 300 laws and decrees of the Austrian Government had been considered and acted upon by the Allied Council, aided by its legislative committee. Of these the great majority were approved, though some were amended and a few rejected outright. A significant case of the Council asserting its authority was the demand in November 1945 that all laws and orders of the Provisional Government dealing with military matters should be annulled. The Government Declaration of the 27th of April had mentioned a modest defence force, and Dr. Renner's original Cabinet had included an Under-Secretary for Army Affairs. 642 727

This state of tutelage and subjection was tolerable only as a temporary expedient. It was in flat contradiction to the declared intentions of the Allied Powers. At Moscow, Churchill, Roosevelt, and Stalin had described Austria as a victim of Nazi aggression. At Yalta they had declared their intention of restoring to such victims their sovereign rights and self-government in accordance with the principles of the Atlantic Charter. The Austrian Government had every right to demand that this decision should be carried out, and the occupying Powers themselves would reveal the sincerity of their diplomatic convictions by the efforts that they took to implement it. [648]

During the spring of 1946 a series of powerful pleas were made on the Austrian side for revising the system of Allied control. On the 5th of April Dr. Renner gave a lecture to the Austrian League for the United Nations entitled 'Austria, St. Germain, and the Coming Peace'. In it he made the comparison between Austria's position after the two World Wars to which reference has already been made. Two weeks before, Karl Seitz, the veteran Socialist leader, made a speech in Parliament in which the authentic voice of democracy was heard. He spoke of the power of veto in parliamentary history

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

642 727 and the hesitation of even kings and emperors to make use of it, because it brought them into conflict with the people. In Austria, however, laws now passed by the freely elected representatives of the people were subject to the sanction of authorities outside the State. After a great war against Fascism in Europe they could be proud that Fascism had been driven out, but the Allied champions of democratic rights were now claiming the right to approve laws passed by the Austrian Parliament. He ended:—

'We appeal to the democratic sense of the English, French, Russian and American peoples. We appeal to them: safeguard your own dignity by safeguarding the dignity of this small Austrian State and its parliament. . . . Democratic countries of Europe: protect your most important and your greatest idea, protect Democracy.'

727 648 Shortly afterwards the Vice-Chancellor, Dr. Schärf, accompanied by Dr. Pittermann, a fellow Socialist and member of Parliament, paid an unofficial visit to London, where they met members of the British Labour Party. Schärf took advantage of the opportunity to impress on Ernest Bevin the urgent need to improve the conditions governing the occupation of Austria. The British Government were willing listeners. The four occupying Powers were bound by their agreement of the 4th of July 1945 to decide on the new relationship that should exist between themselves and the Austrian Government after the elections had taken place. Even before the elections were held, in November 1945, the British Element of the Control Commission in Vienna had started work on a draft agreement, and early in 1946 Allied quadripartite discussions on the British draft had begun. Months of hard negotiations followed, and by June a revised occupation statute was ready for signature. It was perhaps fortunate that during that month the British, who had taken the initiative in the matter, occupied the chair in the Allied Council. The persuasiveness of Lieut.-General Steele, the new British Commander-in-Chief, overcame the final minor differences.

727 The New Control Agreement was signed by the occupying

The New Control Agreement was signed by the occupying Powers on the 28th of June 1946. It is a document of great importance. Following the recognition of the Provisional Government in October 1945, it was the next great step forward in the rebuilding of the new Austria, and with minor modifications it has determined the nature of the post-War régime in Austria ever since. 727 642

According to the agreement the main structure of the Allied Control Commission remained unchanged. It was to consist of a Council, an Executive Committee, and departmental staffs. But the members of the Allied Council were now described as High Commissioners, and it was laid down that the departmental staffs were to be organized in divisions, corresponding roughly with the Ministries in the Austrian Government. The Allied Council had powers of supervision over the whole administration, but was to exercise it normally through the Central Government or the Austrian authorities concerned. The Commission could take measures to deal directly with the following reserved subjects: demilitarization; war criminals; security of the Allied occupying Forces; the care and restoration of the property of the Governments and citizens of the United Nations; disposal of German assets; the care and movement of prisoners of war and displaced persons, and the regulation of travel in and out of Austria, until Austrian controls could be set up.

In general, the authority and responsibility of the Austrian Government and civil authorities were substantially enlarged. The powers of the Central Government extended throughout the whole of Austria, subject only to the obligation to carry out the directions of the Allied Commission and to the reservation of the above subjects. Austria officially became an economic entity again. The function of the zonal boundaries was reduced to fixing the spheres of authority of the four occupying Powers, and in the provinces direct control of the military governments was replaced by watching briefs to ensure that the orders of the Central Government and the Allied Council were obeyed. Provision was made for the establishment of an Austrian customs and frontier control

642
727

administration and for the transfer to it as soon as possible of such functions as would not interfere with the military needs of the occupying forces. The civil administration of the city of Vienna was to be handed over by stages from the Inter-Allied Command to the municipal authorities.

The legislative power of the Austrian Government was greatly increased. It was still obliged to submit all legislation to the Allied Council, but only constitutional laws required the Council's unanimous approval. In the case of all other legislative measures the rule applied that they went into effect if within thirty-one days the Government had not been informed of an Allied veto. As the veto had to be unanimous, this rule ensured that the great majority of laws became effective, even if they met with Russian opposition.

Agreements between the Austrian Government and one of the four occupying Powers did not have to be approved by the Allied Council, but the Council had to be informed of their existence. The Government was also allowed to establish diplomatic and consular relations with Governments of the United Nations without approval of the Council. The establishment of relations with other Governments was permitted, but only with the Council's consent.

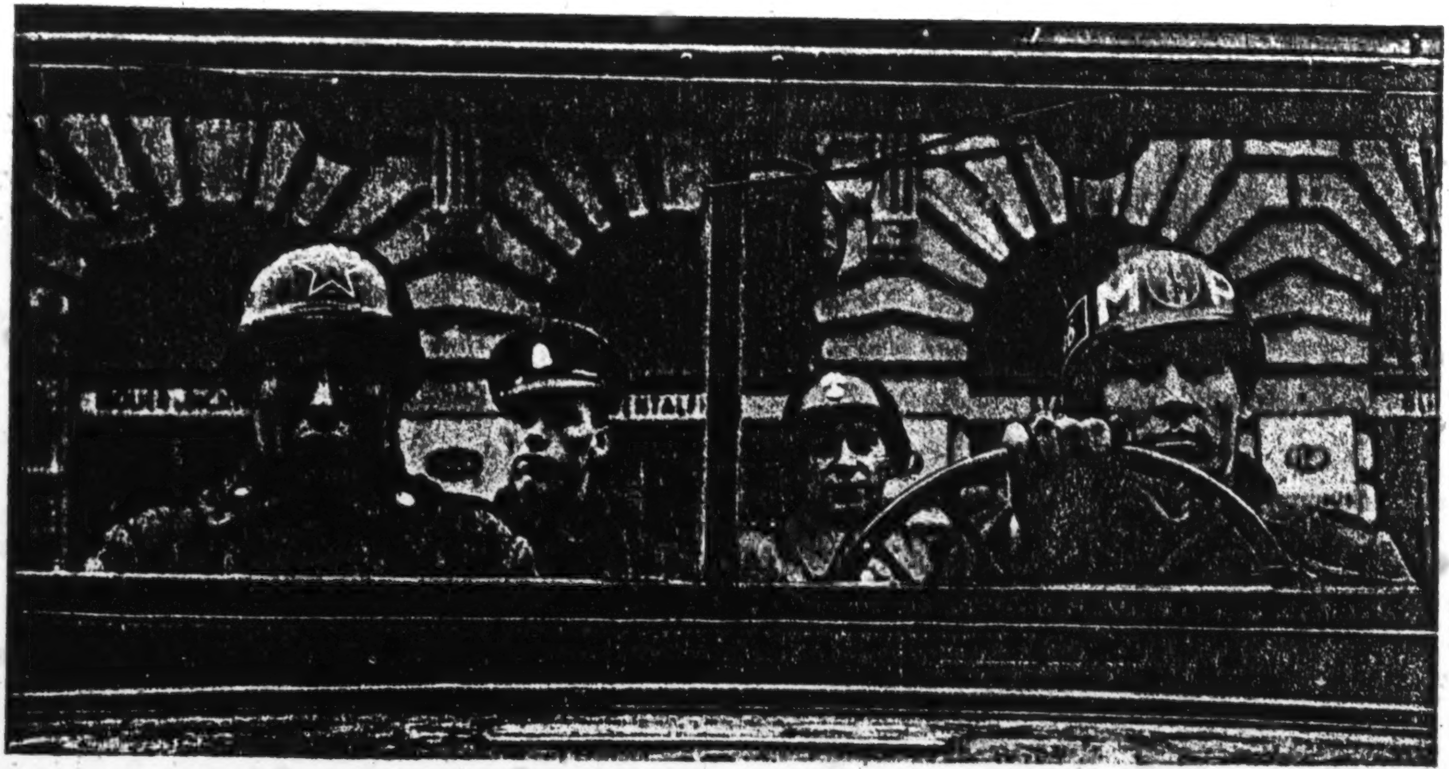
In view of the persistent efforts of the Russians later to obstruct the legislative activity of the Austrian Government, it is surprising that they should have ever agreed to an arrangement that considerably increased the Government's legislative powers. It may be that they had not entirely given up hope of gaining control of Austria by the technique of democratic solidarity and national concentration. It is possible that Stalin was in favour of greater autonomy for the country where he himself had studied the problem of nationality, and that afterwards he changed his mind. But it is most likely that the Russian negotiators did not understand the implications of what they were doing. The original British idea was that all Austrian legislation should take effect that was not subject to unanimous Allied veto. The Russians objected to this. So a compromise was proposed, by which constitutional laws were

put in a separate category. It is highly probable that the 642
Russians did not fully appreciate the difference between con- 727
stitutional and ordinary laws and imagined that much of the legislation they were likely to disapprove would fall into the constitutional class.

The last article of the New Control Agreement stated that within six months of signature the Four Powers should start discussions regarding its revision. Yet they have not so far succeeded in agreeing on anything to take its place, and it has remained the statutory basis of the Allied occupation ever since. The day after the agreement was signed, in a special Cabinet meeting, Figl summed up the Austrian attitude by saying: 'To our thanks to the Allies for the New Control Agreement we add the request that they will show us further proof of their confidence and give our country full freedom.' An arrangement which was welcomed by the Austrians in 1946 has, as the years have gone by, become increasingly the formula of their country's servitude.

Because the general pattern of Allied occupation in Germany 727
and Austria was originally similar, with the Russians occupying the eastern parts of both countries and the capital in each case an isolated island in the Russian zone, there has been a widespread tendency to identify, and therefore confuse the situations of the two countries. Actually their positions since October 1945 have been fundamentally different. There has never been a government for all Germany since the War. When differences between Russia and the West led to the union of the American, British, and French zones to form Western Germany, its capital was established not in Berlin, but in Bonn. In Austria, on the other hand, there has been a Central Government in Vienna since the four Powers recognized the Provisional Government on the 20th of October 1945, and since the 28th of June 1946 it has had considerable, if restricted, powers. The Austrian Government is subject to the supervision of the Allied Control Commission, and the system of quadripartite control, after a fashion, does work. There are frequent differences between the Western Allies and

3: Hiscocks G-4,5 (1946-1949) 1958 EKI Austria EKI



[USIS, Vienna

THE INTERNATIONAL MILITARY POLICE PATROL facing [p.58]

727

the Russians, but these mostly reflect the different views of the Russian and Western Governments regarding the rights and status of Austria. The Allied Council meets every second Friday in Vienna, with each High Commissioner taking his turn in the chair. The Vienna Inter-Allied Command retains a watching brief over the city's administration. And, as the best-known symbol of the reality of the improbable, the International Military Police Patrol carries on its duties in the capital, with American, British, French, and Russian military policemen driving 'four in a jeep' together.

Austria provides proof in practice that representatives of Russia and the West can get on reasonably well together. Members of the Allied Council exchange jokes and social conversation over tea or vodka after days spent in verbal contest. Russian officers give and attend Inter-Allied and Austrian receptions, and, though fraternization at lower levels is more rare, it does occasionally take place. A Russian band and group of dancers were reported to have been received with enthusiasm at an 'Inter-Allied sports evening' that was held in Vienna early in 1952.

The Allied occupation has dragged on for more than seven years since the War ended. To use Dr. Renner's phrase 'the four elephants in the rowing-boat' have stayed aboard and impeded the small vessel's progress. The country has been burdened financially by occupation costs and economically by Russian confiscation of so-called German assets. The continued presence of the Allied armies is a by-product of the diplomatic conflict between Russia and the West, but it is indefensible in the light both of Austria's record and of the Allies' declared intentions.

On the other hand, there has been something on the credit side, so far as the Allies are concerned. For a long time the Western Allies, in Mr. Acheson's words, have 'wanted to go home', and, although it has not been possible for the four Powers to agree on the terms of a State treaty, the three reluctant occupants have done what they could to improve the situation from the Austrian point of view.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

727

In the first place, the burden of the occupation has been progressively reduced. During the course of 1946 the total strength of the occupying forces fell, in round figures, from 700,000 to 120,000. During the spring of that year the three Western Powers proposed that the maximum strength of troops in each zone should be 25,000. The Russians refused to agree and would not even discuss a proposal for more drastic reduction put forward in 1948. But the process of reduction nevertheless went on. In the autumn of 1950 it was estimated that the combined forces of the Western Powers totalled less than 25,000, while the Russians numbered some 44,000.

Occupation costs were cut correspondingly. During the first eighteen months of the occupation its cost was estimated by the Austrian National Bank at 3,600 million schillings, more than half of which had been incurred by the Russian Army. In 1952 the total cost was 453 million schillings, though the schilling was worth less than in 1946. This meant that the percentage of the total national budget spent on the occupation was less than half of that devoted to military expenditure in 1937. In June 1947 the American Government renounced its claim to occupation costs from the Austrian Government and undertook to pay in dollars for all services and supplies furnished by the Austrian economy for the maintenance of American troops. It also agreed to pay 308 million schillings in respect of outstanding obligations. Henceforth the American forces in Austria were justly described as 'paying guests'.

In 1952 a further step was taken by the Western Powers to aid the Austrian economy with the decision to build special accommodation for their troops. This enabled them to release requisitioned houses much needed by the people and hotels urgently required for the use of foreign tourists. The example was set by the Americans, when they planned to build a military town near Salzburg. It was followed by the French at Innsbruck and by the British at Zeltweg in Styria.

727
648

The restoration of Austrian sovereignty is dependent on the signature of a State Treaty, but the Western Allies meanwhile

727
648

have done all that they can to restore normal diplomatic relations with the Austrian Government. All four occupying Powers had agreed to exchange political representatives with Austria before the end of 1945. During the next two years the Allied representatives in Austria were given full diplomatic status, and in 1950 the Governments of the three Western Powers announced that their diplomatic representatives had been appointed High Commissioners. This meant that each of the three Powers had separated the command of its Army of Occupation from the High Commissionership, and that the Western members of the Allied Council would in future be civilians.

The United States and Britain have also contributed a great deal to the industrial and agricultural revival of Austria. This subject will be considered in more detail in connexion with the country's economic recovery. But it is something that cannot be overlooked in dealing with the positive aspect of the Allied occupation. The presence of American and British economic experts in Austria during the post-War years has been of direct and indirect value to the country. In particular, the United States' responsibilities as an occupying Power have added realism and vitality to the execution of the European Recovery Programme in Austria.

645 From December 1945 until February 1953 the Coalition Government of Figl and Schärf under quadripartite control gave stability and continuity to Austrian political life. Within this constant framework, however, significant changes took place.

In November 1949 a currency reform law was approved by the Cabinet in spite of Communist opposition. It was the first occasion since the formation of the Government on which the principle of Cabinet unanimity was abandoned, and Dr. Altmann, the Communist member, resigned. The Ministry of Energy and Electrification came to an end with his membership of the Government. Communist collaboration with the other parties in the Coalition had long been formal rather than real, so his resignation had little effect on Government policy.

V

The Economic Legacy of the Anschluss and the War

AUSTRIA lost its economic identity as well as its political independence at the time of the *Anschluss*. As the Austrian provinces and Vienna itself were subordinated to the German Government in Berlin, so Austrian industry, agriculture, and forestry were absorbed into the German economy.

433
727

In war and defeat, therefore, Austrian economic life suffered with the rest of the Nazi Empire. The damage caused by actual hostilities was relatively less in Austria than in Germany. The campaigns on her actual territory were brief, and serious air attacks were limited to the main centres of industry and communications. On the other hand, Austria was a more sensitive and vulnerable economic unit. In 1938 she had only just begun to pay her way after twenty years of effort, while Germany was one of the most powerful industrial countries. The injury inflicted on the Austrian economy by the War in all its aspects was crippling and came near to being fatal.

In spite of Austria's relative freedom from air-raids, the destruction in the target areas was severe. The loss in buildings was estimated after the War at about four billion[1] schillings with the schilling at forty to the pound. The industrial city of Linz lost nearly a third of its 44,000 dwellings. Wiener Neustadt, home of an important Messerschmidt aircraft factory and other war industries, was the worst damaged of Austrian cities. It was hit by more than 50,000 bombs. Only eighteen of its houses were left intact, and its population was reduced from 45,000 in 1944 to 860 in April 1945.

727

---

[1] The term 'billion' is used throughout in the American sense of a thousand million.

F

[p. 69]

● 727 About 400,000 Austrians were killed or missing as a result of the War, and more than 300,000 were wounded. At the end of 1945 several hundred thousand men, who were badly needed in industry and agriculture, were still prisoners of war.

Certain aspects of the Allied occupation imposed a heavy strain on the Austrian economy. The wave of looting that accompanied the fighting was inevitable and temporary in its effects. But the widespread confiscations that followed were more serious. The heavy burden of occupation costs used up limited resources that were urgently required for the work of reconstruction. The division of the country into zones was a formidable obstacle to trade revival, and the splitting up of Vienna into districts resulted in inconvenience and absurdities. No actual barriers were maintained within the capital, as there were between the zones, but the system by which the city districts were allotted to the different occupying Powers stood in the way of a return to normal economic life. Two sides of the same thoroughfare might be under the control of two different countries, and at the end of 1945 the French Military Government insisted that a permit was required for sending goods from its own district on one side of the Mariahilfer Strasse to the American district on the other.

727 167 A further burden on the country was the vast number of displaced persons and refugees that flooded into it, mainly from Czechoslovakia, Yugoslavia, and Eastern Europe. Their presence was not an unmixed disaster. The great majority of them were responsible and law-abiding, and many were skilled and able-bodied workers, who were to make a valuable contribution to agriculture and industry. But during the early post-War months there was also a reckless and disorderly element amongst them, which complicated the task of the police and sent the murder rate up to an alarming level. In spite of organized efforts to deal with the question, there were 550,000 registered displaced persons at the end of 1946, and there may well have been another 100,000 who had escaped registration. Two years later there were still over 400,000 of them left, the majority in the stateless category, and the Government was obliged to spend approximately 150 million schillings a year on maintaining them.

Government was obliged to spend approximately 150 million schillings a year on maintaining them. 000

The Austrian economy under the Nazis had been geared to make a maximum contribution to the war effort. When the War ended, the whole structure collapsed. Factories that had been converted to war production at great expense needed even more spent on them in many cases to fit them for peacetime production. As this situation was common throughout the world and industrial equipment and machine-tools were in very short supply, the process of reconversion could only be carried out slowly and at a high cost. Those industries that served a purely peaceful purpose had been very largely neglected during the War. Much of their equipment and machinery was worn-out and old-fashioned, and the process of replacement involved the same difficulties as the reconversion of war industries. 433 727

The railways provide an example of the kind of problem with which Austria was faced. Over a third of the total track mileage was out of action owing to war damage, and nearly 400 bridges had been destroyed. At the same time, the greater part of the locomotives and rolling-stock that were still available were due by pre-War standards for renewal. [496]

A good indication of the War's effect on the Austrian economy is given by the estimated figures for 1946. When the year opened, the country had already had eight months in which to recover from actual hostilities, so the figures represented an injury of more than passing significance that could not be attributed solely to the results of the fighting or to the administrative breakdown that accompanied the German defeat. The total gross national production in 1946 was approximately 45 per cent of the 1937 figure. Agriculture reached only about 50 per cent and industry only 43 per cent of the amounts produced in 1937, while foreign trade was only about 8 per cent of the 1937 total. Of this modest aggregate production it has been conservatively estimated that some 30 per cent was required to meet the needs of the occupying Powers.

727
433

Most of the economic difficulties that have so far been mentioned were shared in the main by Austria and Germany. They were the common results of a common struggle, in which Austria as a whole was an unwilling participant. Yet there were other ways in which Austria suffered more severely than her culpable oppressor. Some were primarily the responsibility of the Russians; others, of the Germans themselves.

Germany has lost territory in the east to Russia and Poland, and the area that remains to her has been divided politically into the Eastern and Western Zones. But the economic, as opposed to the political, effects of the post-War Russian occupation have been less serious in Germany than in Austria. The Russian zone of Austria is of more importance to the country as a whole than is the Russian zone of Germany to the whole German economy. Thanks to the great industrial resources of the Ruhr Valley, Western Germany is again a powerful economic force, while Austria, owing to Russian exploitation, is still dependent on American aid. Without the industry and mineral wealth of the Russian zone Austria cannot be a viable State.

Russia's control of Lower Austria, Burgenland, and a substantial part of Vienna gives her a dominant influence on the Austrian economy. The area includes the best grain-lands and vineyards in the country, the great oil-fields of the Zistersdorf region, and a high proportion of Austria's industry. In 1934, 65 per cent of those employed in industry and trade were to be found in the three provinces of Lower Austria, Burgenland, and Vienna. Even in 1948, when many industrial concerns had been transferred to the West, the figure was still about 50 per cent.

It is not suggested that the Russians have exploited the whole industry and agriculture of the area for their own ends. As an occupying Power, however, Russia has been able to take advantage in various ways of the economic resources available. In the early days a great deal was removed in the form of loot and war booty, and since then systematic confiscation on a vast scale has been carried out on the pretext that whatever was taken was a 'German asset', and therefore a legitimate form of 727 ● reparation. The damage inflicted on the Austrian economy 433 has been decisive in preventing its full recovery.

Russia's subjugation of East and South-east Europe has also been a severe blow to Austrian commerce. Not only has 727 Austrian capital behind the Iron Curtain been confiscated; 439 Austria also has very largely been cut off from her main market area. The Habsburg Empire in its economic aspect represented the material interdependence of the peoples of the Danubian basin. It was natural, therefore, that after the Empire had collapsed Austria should maintain her economic ties with the Succession States. In 1937, 27 per cent of Austria's exports went to the five eastern countries behind the Iron Curtain that are now known as the 'People's Democracies', and 31·5 per cent of her imports came from them. The corresponding figures in the summer of 1952 were 12·3 and 9·9 per cent. The decline is not due to any disinclination on Austria's part to maintain normal trading relations: in that year she signed trade treaties with both Poland and Hungary. Apart from foreign aid, Austria is dependent on her exports for the purchasing power with which to buy food and the equipment necessary for her recovery. Any serious contraction of her foreign markets involves a corresponding setback in her economic revival.

Austria's problems were further increased by her geographical [489] position. After the War, Russia controlled the Danube and seized the steamers and barges belonging to the Danube Shipping Company. With no immediate access to the sea, therefore, Austria was entirely dependent on land communications and the availability of transport for her vital coal supplies and a large proportion of her food. She had less flexibility than better-placed countries like Germany in her search for new trading partners, when her industries gradually revived and she found her old markets closed to her. These difficulties were increased by the acute transportation crisis in Europe after the War, due to the shortage of locomotives, railway trucks, and road vehicles.

727 433 Other injuries from which Austria suffered were the result of deliberate German policy. So long as the Nazi occupation lasted, Austria was treated as an appendage to the German economy, and her interests were subordinated to those of the Reich. She was no longer considered as an economic entity, and no attempt was made to maintain the balance of her economic life.

[133] [311] About 57 per cent of Austria's total area is over 1,000 metres (3,281 feet) high, and 37 per cent is woodland. It is therefore hardly surprising that only 21 per cent is cultivated and that before the War, in spite of strenuous efforts, the country could produce only three-quarters of its total food requirements. At the same time it was essential that it should be as self-supporting as possible. To import even a quarter of its provisions imposed a severe strain on the balance of trade. Yet during the Nazi period efforts to increase Austrian agricultural production were relaxed. The self-sufficiency of a mere group of provinces was a matter of no significance to Hitler, and he preferred to depend for his food supplies on the conquered and dependent lands of Central and Eastern Europe. The *Ostmark* could be better used for other purposes.

Austrian farms therefore lost man-power to the army. Their livestock was reduced. Equipment grew old and could not be replaced. Owing to lack of fertilizer the quality of the soil deteriorated. In 1945 domestic food production reached less than half, and in 1946, when conditions were much less disturbed, only about two-thirds of the pre-War level.

[313] Austria's forests are one of her most valuable natural resources. Her timber industry~~, together~~ with the paper and cellulose industries dependent on it, accounts for about 9 per cent of her national income and for a substantial proportion of her exports. During the War the forests were ruthlessly exploited, and it has been estimated that at least 10 million cubic metres of timber were felled in excess of the economic figure, the fellings mainly taking place in the most accessible areas. This meant that years of strict control would be necessary to restore the timber industry to a healthy condition. At a time when the country was struggling to rebuild its economy, one of its main sources of wealth was in a state of convalescence.

a time when the country was struggling to rebuild its economy, 600
one of its main sources of wealth was in a state of convalescence.

Highly skilled workers are one of Austria's chief economic 727
assets, and between the Wars consumer-goods and luxury 433
industries played an important part in her economic life. This [464]
side of her economy declined seriously during the German occupation. As part of the deliberate plan to turn the country into an arsenal, workers were diverted from secondary industries and agriculture to the large new war-production centres that were established.

The great Hermann Goering Iron and Steel Works were set 727
up at Linz, with their own coking plant. Sixty miles away at 327
Ranshofen near the River Inn a big aluminium plant was 328
built. There were several reasons for these developments. The 438
fundamental idea was to provide a reserve of vital war industries in a district less vulnerable to enemy attack. Just as the Russians transferred some of their main war industries to Central Asia, so Hitler wanted to have some of his production centres farther away from Allied bomber bases. Secondly, there were certain economic considerations in favour of the two sites. Both were on important waterways. Linz was some sixty miles from the iron ore of the Erzberg, or Iron Mountain, in Styria and not far away from the low-grade ore of Bavaria. Ranshofen was reasonably close to the Hungarian bauxite deposits and conveniently situated in relation to the Third Reich's electricity network, cheap current being the main consideration in the siting of an aluminium works. Further, there were reasons of sentiment and prestige for the choice of location. Hitler was born in Braunau, a few miles from Ranshofen, and went to school in Linz. It seemed fitting that the scenes of the Führer's youth should become centres of war production.

From the purely Austrian point of view, however, such developments were not so satisfactory. Hardly one of the considerations that influenced German leaders would have carried weight with an independent Austria. The strategic and sentimental arguments were both irrelevant. Neither Bavaria nor

727 Hungary could be relied on to supply iron ore or bauxite, and
327 the existing iron and steel works at Donawitz in Styria were
328 better situated than Linz to handle ore from the Iron Mountain.
438 Ranshofen was not well placed in relation to Austrian supplies
of electric power. Above all, the Hermann Goering Works were entirely dependent on the supply of hard coal for their coking furnaces, and Austria was already seriously short of this essential commodity. Whereas Hitler had the coal-fields of Poland and Czechoslovakia at his disposal, Austria in pre-War years had already been dependent on imports for two-thirds to three-quarters of her coal supply. The requirements of the Linz works made the position much worse.

727 The new developments implied a fundamental change of
438 emphasis in the whole national economy, and it was by no
means certain, or even likely, that the change would be for the better. It would probably have been sounder for Austria to rely on the traditional skill of her workers in the consumer-goods industries than to attempt to compete with the most powerful industrial countries in basic production. The dangers might not be apparent in the immediate post-War years, owing to the inflated demand for iron and steel products, but they were likely to reveal themselves in the course of time. A serious depression in the world's basic industries or a failure to obtain the coal and raw materials on which Austria's basic industries depend might have very serious consequences on the country as a whole. The choice, however, was not Austria's own. The change that occurred was the main positive legacy of the period of Nazi occupation.

727 Two of Austria's chief natural resources are her mineral
315 oil and her hydro-electric power. These were developed by
the Germans rapidly during the War, but in each case with little regard to Austrian interests.

Under happier conditions Austria's oil-fields would have raised her from a struggling country to a prosperous one. It is one of the hardest blows that have fallen on the Austrian people that such a gift of Providence should have been exploited successively by two unscrupulous foreign Powers and should

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

never yet have been used for the benefit of the people themselves. 727
Between 1937 and 1944 the annual production was 315
raised from 33,000 tons to 1,200,000, but this result was only achieved by uneconomic and wasteful methods that were damaging to the oil-fields and would not normally have been employed.

Under German occupation hydro-electric power production 727
was also developed considerably. Between 1937 and 1945 the potential output of current was raised by about 61 per cent. 377
But the extra power made available was not intended primarily for Austria's benefit. The country was split up and incorporated in separate 'power regions' of the Reich, the Vorarlberg being allotted to Baden, the Tyrol to Bavaria, and the eastern provinces joined up with Bohemia and Silesia. There was no direct transmission line between the eastern and western provinces. This arrangement made it impossible for Austria to utilize to the full her hydro-electric current when the War came to an end.

In spite of the numerous disadvantages, however, the economic effects on Austria of the *Anschluss* and the War were not entirely bad. German energy and efficiency brought direct results that otherwise were unlikely to have been achieved so quickly. Austrian interests were not consciously regarded during the process, but when Austria was restored to life some of the results turned out to be good and some were of potential value.

Although hydro-electric developments in Austria had been considered by the Germans as part of a greater whole, the new plants available on Austrian territory after the War were a valuable national asset. In course of time the grid could be adapted to suit Austrian needs. Furthermore, the fact that the Germans attached so much importance to Austrian current underlined its significance in Austrian eyes as a potential major export. During the post-War years Austrian statesmen and economists have been more conscious than ever before of the value of Austria's vast hydro-electric resources to the country's economy as a whole.

● 727 315 In the same way, against the ruthless and damaging methods by which Austrian oil-fields were developed can be set the amount of capital expended and the value of the results achieved. A great new source of national wealth was opened up with exceptional speed. The exploitation of this wealth by the Russians is the largest debit item in the Austrian–Soviet account. But it was only an indirect, and by no means inevitable result of German action and the War.

727 433 In the basic industries also there were certain considerations that offset the disadvantages and dangers of the change of emphasis in Austrian industry that the new developments involved. Had the Linz and Ranshofen works[1] been liabilities alone, they could have been dismantled and abandoned after the War. But large sums of money had been invested in them, which Austria on its own would have had the greatest difficulty in raising. The decision to keep them both going, so far as the supplies of raw materials, coal, and electric current allowed, reflected Austrian realization of their value.

[387] One major item in the economic legacy of the *Anschluss* period was an unqualified asset of great worth. A large nitrogen works suitable for the manufacture of artificial fertilizer was erected during the War at Linz. The site was chosen because the main substance required in the manufacturing process was coal-gas, and surplus gas was available in sufficient quantity from the Hermann Goering coking-plant. By November 1950 the works had produced a million tons of ammonium nitrate since the end of the War. Austrian agriculture had benefited considerably, and during the four years from 1947 to 1950 the export of artificial fertilizer had earned more than $25 million worth of foreign exchange. If foreign markets contract, experts consider that the whole production can be used with advantage in Austria. Food production would increase substantially as a result, and the scale of essential imports would be reduced.

433 Three times in a generation Austria has had to adapt her economy to radical territorial and political change. In 1918,

[1] [cf. category 116, pp. 75-76 — Analyst]

was raised successively to 1,600 and 1,700 calories a day. In 434 June 1948 it went up to 1,800, and the following September to 2,100. Between December 1947 and December 1948 black- 435 market food prices fell from 64 per cent to 15 per cent of the figures for January 1946. This meant that it was at last reasonable to devote a smaller proportion of foreign aid to foodstuffs and a greater amount to economic rehabilitation. Of the 457 £8,500,000 provided by Britain, less than £1,500,000 was 454 spent on food, about the same amount on agriculture, £2 million on coal, and over £3 million on the most urgent industrial needs. Of the American Congress aid allocated for the first half of 1948 just under 60 per cent was devoted to food and just under 40 per cent to agriculture and coal, which was of such vital importance to industry.

The administrative responsibilities of the British and 727 Americans in Austria made them highly sensitive to the country's needs. In spite of the obvious drawbacks of the occupation, there were certain advantages for Austria during the first precarious post-War years in the presence of the Western Allies on her territory. Without them the process of rebuilding the administration and economy after the collapse of the Nazi system would almost certainly have been accompanied by even more acute material shortages than those that were actually experienced.

Though the Austrian basic ration did not rise above 1,600 146 calories a day until November 1947, the minimum physiological needs of the normal consumer have been estimated at 2,160 calories. It might have been expected, therefore, that the results of so long a period of under-nourishment after the strain of the War would have been far worse than they actually were. One reason why they were not has already been mentioned: a large number of people resorted to the black market. But there were two other explanations.

During 1947 there were approximately 5 million Austrians 146 in the rationed, as opposed to the self-supplying, category. Of 434 these only about 2 million were normal consumers in receipt of basic rations. All the rest, either as employees, workers, 497 457 kilometres of track being electrified and in the annual saving of 300,000 tons of hard coal. The new programme worked out under the stimulus of ERP aid would mean saving a further 700,000 tons of imported coal. Quite apart, therefore, from the possibility of recovering transit traffic in the future, the new developments would lead to a substantial economy in foreign exchange.

•727 484 In 1936–7 about 80 per cent of Austria's trade deficit had been covered by the earnings of the tourist industry. After the War some years were to elapse before the number of foreign visitors approached the pre-War figure. There were several reasons for this. The total war damage suffered by the industry was estimated at 270 million schillings in terms of 1937 prices and at about 1,500 million schillings with the schilling at its 1950 value. Out of 200,000 beds available for tourists in 1937, 80,000 were lost, of which half had been suitable for foreign visitors. Accommodation for a further 30,000 was requisitioned by the occupying Powers in the early post-War years. In addition, serious obstacles were presented by the food shortage and the difficulty of obtaining passes for entering the country and for crossing the zonal boundaries.

484 457 Efforts were made both by the Austrians and the Western Allies to establish the conditions necessary for the revival of the industry. In October 1946 an Austrian organization was established for this purpose. In 1947 arrangements were made by which food was purchased abroad in order to provide foreign tourists with rations on a basis of 4,600 calories a day without depleting the limited Austrian supplies. The following year the Austrian Government was made responsible for the issue of visas to intending visitors, and the visitors, once in the country, were free to move about between the different zones. Yet, in spite of these measures, progress was slow. In 1947–8 the volume of foreign tourists, measured both in numbers and length of stay, amounted to only about 12 per cent of the 1936–7 figure, and in terms of foreign exchange earnings the comparative value was considerably less.

The ERP planners recognized the vital importance of the schillings, half of each account was to be blocked for six months, and a quarter for a further three months. 65 454

Some attempt was made to distribute the burden in accordance with capacity to pay. Those in need were allowed to retain limited amounts from their blocked accounts up to a maximum of 3,500 schillings, and under this provision payments amounting to about 500 million schillings were in fact made in monthly instalments to 300,000 people. A capital levy was also announced, for which the necessary legislation was passed the following July. It imposed graduated taxes on capital and capital increment which were to be spread over a number of years. [651]

The essence of successful currency legislation is that it should be introduced unexpectedly and implemented immediately, so that no one should have time to take evasive action. Such procedure was not possible in Austria in 1947 owing to the provision of the Allied Control Agreement which laid down that laws went into effect, if not vetoed, thirty-one days after they had been submitted to the Allied Council. Nevertheless, the Austrian Government might have handled the situation with greater skill. In the end, it secured Soviet approval of the Defence Protection Law at the heavy price of accepting the Russians' terms for the settlement of their 1945 'loan'. With Allied consent the law then went into effect ten days ahead of the normal time. It would have been worth paying an even heavier price to obtain Russian approval in advance, so that the three weeks' delay between the publication and execution of the law could have been avoided. 652 727

As it was, the situation during the three weeks' interval was grotesque, and the effectiveness of the law itself was seriously diminished. Evasive action was carried out on the widest scale, the most quick-witted and unscrupulous coming off best. Nobody was anxious to sell anything for money that was about to be devalued, and, in spite of Government regulations to the contrary, many shops could not be persuaded to remain open. People revealed a sudden enthusiasm for paying debts, and creditors could hardly refuse payment in a currency in 652

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

727 517 Austrian cultural and intellectual life suffered great damage during the seven years of Hitler's occupation. The Nazi régime in Austria, as in Germany, was accompanied by systematic vandalism. Books were destroyed, teachers regimented, and intellectual effort discouraged amongst students. Certain kinds of art and music were banned, either owing to the race or nationality of the artist or composer, or because the style was classified as decadent. Musicians, authors, artists, and scholars were driven into exile owing to their race or political opinions. And finally the destructive process was completed during the last year of the War by bombs and gunfire. In addition to St. Stephen's Cathedral and the Burgtheater, the Vienna State Opera was almost completely destroyed. Schönbrunn, the Belvedere, the Albertina, the Schwarzenberg Palace, and the Museum of Art History were all damaged in varying degrees. A bomb fell through the dome of Salzburg Cathedral.

Furthermore, so cosmopolitan and receptive a people as the Austrians suffered severely from the intellectual isolation that the occupation and the War brought with them. Engaged in a struggle in which most of them did not believe, for the sake of a creed that most of them despised, the Austrian people were victims of cultural claustrophobia. In spite of the severe penalties for doing so, many of them listened regularly to foreign broadcasts throughout the War, and when the B.B.C. broadcasters in German visited Austria afterwards they were received like popular heroes.

727 208 The Allied occupation helped to bring an end to the isolation in several ways. The presence of foreign troops contributed to this result, as the majority of soldiers from the West soon showed themselves to be friendly disposed towards Austria. The four occupying Powers also maintained efficient Information Services with the dual purpose of counteracting the effects of Nazi indoctrination and providing news and information about themselves and their ways of life. Each Power published a daily German newspaper in Vienna, ran a broadcasting service of its own, and set up libraries and reading-rooms in Vienna and its own zone.

600 642 517 and its own zone. In addition, the occupation furthered the development between Austria and the Allies of the cultural diplomacy that has made such rapid progress in recent years. Leaders in this field were the French with their well-organized *Division des Affaires Culturelles* in the French Foreign Office. Its headquarters in Austria was the magnificent Lobkowitz Palace in Vienna, and a very active French Institute was also set up in Innsbruck. The British Council opened an office in Vienna towards the end of 1945, and later established branches in Graz, Klagenfurt, and Innsbruck. The Russians worked mainly through 'The Society for the Cultivation of Cultural and Economic Relations between Austria and the Soviet Union', which was started soon after the end of the War. While the Americans, though concentrating entirely on their Information Services at first, finally sent representatives of the Cultural Affairs Branch of the State Department to Austria.

The presence of foreign cultural organizations in their country stimulated the interest of Austrians in a form of diplomacy to which they are well suited by temperament and tradition. As will be seen, the French and British cultural representatives furthered the development of relations between Austria and their own countries in a wide variety of ways. But the Austrians, without any special organization of their own intended for the purpose, undertook a series of major ventures in cultural diplomacy which made a great impression in many European countries and in North America. A series of cultural conventions were also signed by the Austrian Government; with France in 1947, with Italy and Great Britain in the spring and autumn of 1952, and with Belgium early in 1953.

871 727 The damage done by the Nazis to the Austrian educational system was a most serious threat to the country's future, because the damage was spiritual as well as material. A systematic attempt had been made to pervert the minds of teachers and pupils. Fortunately its effects were modified considerably by home influence and by the anti-Nazi convictions of many

teachers, who were obliged in varying degree to conform outwardly to a system which they inwardly rejected. Nevertheless drastic measures were necessary to ensure that post-War Austrian education would develop on healthy lines. Nazi text-books had to be destroyed and convinced Nazis rigidly excluded from the teaching body. 871 727

In 1945 Austrian schools were faced with four major problems of a material nature: shortage of accommodation due to destruction and damage; lack of text-books and other supplies; lack of teachers, and the physical condition of the pupils. In the whole of Austria, 95 schools were completely destroyed, 176 were heavily, and over 1,000 slightly damaged. In Vienna at the end of the War only 214 out of 421 school buildings were considered fit for use. In some cases at first it was necessary to give instruction in shifts to three classes a day in the same room. Even in the classrooms used there were often broken windows or damaged doors and, as fuel was scarcely obtainable, during the winter months the children, frequently ill-clad themselves, would sit and shiver through the period of instruction. The main reason for the shortage of teachers and text-books has just been given. To begin with there was also a serious shortage of such basic materials as paper, pencils, pens, and ink. It was difficult to find substitutes for the teachers who had been dismissed, because hundreds of thousands of young men were still prisoners of war. In Vienna immediately after the liberation there were only 2,400 teachers and directors [875] available out of the total of 5,500 that were required. The physical condition of the children was a problem owing to the acute shortage of food and clothing during the immediate post-War years.

In their efforts to overcome these difficulties the Austrian authorities were both hindered and helped by the Education Divisions of the four elements of the Allied Control Commission. It was no doubt irritating to have to submit many matters for approval by the occupying Powers, and in some cases—for example the question of text-books—inter-Allied differences of opinion led to unnecessary delays. On balance,

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

871
727
however, the part played by the Education Divisions was rather a help than a hindrance. They realized the vital importance of education in post-War Austria. There were problems, on which the Austrians were not always united, about which they could give valuable advice. Above all, they could offer very real assistance in obtaining the necessary materials for rebuilding and for producing the much-needed text-books.

The economic situation of the country made a quick solution of the accommodation problem impossible. By the end of 1949 it was estimated that about a quarter of the necessary funds had so far been made available and that the reconstruction programme could not be completed until 1958. However, strenuous efforts were made to relieve the serious overcrowding of 1945. By the beginning of 1952, 250 new school buildings had been erected, and many more had been repaired and re-equipped. During the following summer the new Minister of Education, Dr. Kolb, was able to express reasonable satisfaction with the progress of the primary and elementary schools, which are the responsibility of the provinces, the municipalities and the parishes, but had to admit that the condition of the secondary schools, which, like the Universities, are the financial responsibility of the State, was in some parts of the country, owing to lack of money, still very bad.

The urgent need for text-books was satisfied by emergency measures which produced impressive results. The Ministry of Education set up a 'Text-Book Commission' that worked in conjunction with the Association of School-book Publishers, the Allied Control Commission, and the Ministry of Trade, which arranged for the necessary supplies of paper and other materials. At the end of 1947, 4,212,000 copies of 118 different text-books had already been produced, and two years later 10,009,000 copies of 418 books. The centralization and standardization involved in this system have obvious disadvantages, but in the circumstances were justified by success.

875 The shortage of teachers was met in 1946 by employing students in their final year at teachers' training colleges as

assistants. Subsequently the situation improved, as an increasing number of returned prisoners of war became available and some relaxation was allowed in the law excluding all former National Socialists from teaching. 875

871 727 The shortage of food was so general that the educational authorities were not in a position to make special arrangements for school-children, but, as has been seen, much was done for them by Swedish, Danish, and Swiss voluntary relief organizations. During the winters that immediately followed the War it was only possible to heat a proportion of the schools, the 'winter schools', as they came to be called; and then the already large classes doubled up or the shift system was intensified. The acute fuel shortage at the beginning of 1947 led to so-called 'coal holidays'.

648 875 The Allied cultural and educational organizations played an important part in breaking down the intellectual isolation from which the teachers had suffered so long and of which the best of them were acutely conscious. The French and British ran summer schools for teachers in Austria each year, which were also attended by teachers from France and England; and visits for Austrian teachers were arranged to England, France, Switzerland, and the United States. A limited number of Austrian school-children were also enabled to travel abroad. With the active co-operation of foreign countries, the Austrian Ministry of Education revived some of the schemes for exchanging teachers which had been in operation before the *Anschluss*.

871 665 Education is one of the subjects on which there are strongly felt differences between the People's Party and the Socialists. Since the War the differences have been accentuated by the fact that for more than five years Dr. Hurdes, the Minister of Education, was also General Secretary of the People's Party, and by the fact that the Vienna School Board was under Socialist control. The main subjects of difference are religious instruction, private schools, and the best method by which a ninth year could be added to the period of compulsory schooling. There is agreement on the principle of extending the

871 665 period of schooling, but party conflict prevents the necessary law being passed.

In spite of this impasse, a great deal has been accomplished in Austrian schools since the War under most difficult conditions. Both parties have been agreed on the validity of three guiding principles which were to be emphasized in the new educational era, according to a directive issued in September 1945: Austrian patriotism (*Volks- und Staatsbewußtsein*), democracy, and humanity. Their experiences between 1938 and 1945 have brought home to Austrians the value of the first two principles more clearly than ever before. The third is deeply embedded in the Austrian nature and tradition.

874 727 Austria's three universities and her other institutions of higher learning suffered some material damage during the War, especially the University of Vienna and the Technical Institutes at Vienna and Graz. Their work after the War was also severely hampered by the shortage of fuel and food. But the most serious problems that faced them were lack of staff and lack of money.

[875] Some of Austria's finest scholars had gone into exile during the German occupation. Of those that remained many of the younger had been called up for military service, and a number of the ablest and most influential were excluded from teaching as incriminated Nazis. Germans, who had been appointed to Austrian universities under Hitler, returned to Germany. Some of the gaps could be filled by bringing back professors who had been forced into retirement by the Nazis and had remained in Austria. But there were still many vacancies for which it was very difficult to find the right men. The younger generation of university teachers had suffered severely from the War, and it was rarely possible to persuade Austrian exiles, who had settled down happily in other countries, to return to Austria under the prevailing economic and political conditions and at the low salaries that were offered. For more than two years after the War, Vienna University was even unable to fill its chair of English.

Lack of funds not only kept down salary scales; it made it

impossible to replace books and instruments that had been damaged and destroyed or to modernize equipment after years 874
of neglect. Under such conditions serious research in many 727
branches of science was impossible. To give one isolated example, in 1948 the Department of Astronomy at the Technical Institute in Vienna received a total monthly grant for books and equipment of 50 schillings—that is to say, $2.00 to $5.00, according to whether the black-market or official rate of exchange is taken. Such expensive new apparatus as was received by the universities and technical institutes often came, in one way or another, without payment from the United States.

In spite of these formidable obstacles, the war-weary and elderly professors set about the task of building up the academic life of their country with devotion and idealism. In the middle of April 1945, while fighting was still going on, members of the staff of Vienna University met together to consider what could be done to rebuild their university on true Austrian lines. Before the end of the month they had elected a Senate and Rector to take charge of the work of reconstruction.

There has been no lack of students since the War in Austrian universities. Young Austrians, including many ex-servicemen, have been anxious and impatient to equip themselves for some useful and constructive occupation after years of war and misdirected effort. So it has come about that the student body has shown a considerable increase on the pre-War level and for several years has exceeded 20,000. In the winter term of 1950–1 it numbered over 22,000, which was 43 per cent above the 1937–8 figure. Austrian universities continue to attract hundreds of students each year from Eastern Europe, and the number of students from the West, including the United States, has been increasing.

Foreign cultural organizations in Austria have done what 874
they can to help. French and British professors and lecturers 648
have visited Austrian universities. Austrian scholars have been invited to England and France, and scholarships given to Austrian students for foreign study. Harvard University has

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

tion centres, people's libraries, folk-song and folk-dancing clubs and art societies. The example was soon followed in a number of other provinces. 814

An important part in the adult education movement was played by the so-called people's libraries, from which books could normally be borrowed without charge. Some were run by the villages and municipalities, some by the churches, some by trade unions, and others by political parties or voluntary associations. Their number rose within two years from a low level of 400 in 1945 to 1,257 in 1947.

The lack of books was one of the main cultural problems in post-War Austria. The intellectual isolation and severely restricted literary diet of the Nazi régime were followed by a period of dangerous uncertainty after Hitler's power had collapsed. A great deal would depend on how the mental and spiritual void was filled which had been left by the failure and exposure of the whole Nazi system. 214 727

Austrian journalism rose bravely to the occasion, but in the early days Austria's own contribution to the solution of the problem was limited by economic dislocation, shortage of paper, and absence of the conditions conducive to creative effort. The Allied Information Services did a great deal, and two British organizations took the lead in remedying the lack of books. By an imaginative stroke Mr. Ernest Bevin gave orders for two aeroplane loads of English books to be flown over to Austria early in 1946. This enabled the British Council to hold a highly successful book exhibition in Vienna during March, as a result of which nearly all the 20,000 books were sold within a short time and a large number of additional orders were received by London publishers. The British Foreign Office and Treasury made arrangements by which the Austrians could buy the books with their own currency and the British publishers were paid in sterling. Henceforth the main restriction on the supply of English books in Austria was the limited numbers available in Britain itself, where the paper shortage was still acute. The following year the British Council organized six further book exhibitions in provincial 214 648

XI

Negotiations for a Treaty

● 727 BY the summer of 1952 Austria had been occupied longer by its 'liberators' than by the Nazis. This state of affairs came about as the result of a long process of delay and disingenuous diplomacy, and there has been a widespread tendency throughout the world to take it for granted as an inevitable concomitant of the situation in Germany. But the Austrian people had had every reason to suppose that their country would be in a very different position seven years after the War ended.

727 648 By the Moscow Declaration of the 1st of November 1943 the Governments of the United Kingdom, the United States, and Soviet Russia agreed that Austria, as the first free country to fall a victim to Hitler's aggression, should be liberated from German domination, and announced that they wished to see a free and independent Austria re-established. Later in the month the Free French authorities at Algiers concurred with this declaration. At the Potsdam Conference in the summer of 1945 the three Powers also agreed that reparations should not be exacted from Austria. Yet the occupation has continued, and Austrian statesmen have complained with justice that their country has been treated as an ex-enemy rather than as a liberated victim. In fact, the lot of the ex-enemies has, on the whole, been preferable, because by 1952 peace treaties had been concluded with Italy, Hungary, Roumania, Bulgaria, and Japan. In a broadcast statement delivered in January 1952 Dr. Figl expressed himself in the following vivid but unexaggerated terms: 'When a criminal has served his term, he is allowed to go free. It has solemnly been declared, not only that we have committed no crime, but that we have fallen a victim to a criminal. And yet we have been deprived of our liberty.'

727 As has been seen, the Allied occupation has had certain direct

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

and indirect advantages for Austria: it has saved her the expense of maintaining defence forces; it has brought home forcibly to the United States the extent of her economic needs, and it has produced political solidarity in face of the emergency. Yet Marshall Aid would in some measure have been forthcoming, and the lessons of the Coalition to some extent have been learned, had a treaty been signed in 1946. On the whole, the disadvantages of the occupation have greatly outweighed the advantages. Austria has carried the burden of occupation costs, and she has had to endure the wholesale exploitation of her oil and industry by the Russians. Above all, a liberty-loving people have had to submit to supervision and interference with their domestic affairs. The presence of the Western Allies has been appreciated in some degree as an antidote to the Russians. But even the most friendly disposed of foreigners can never really be welcome as members of an occupying force. Hotels and dwellings have been requisitioned by all four occupying Powers. Americans as well as Russians have caused trouble for the Vienna police by their propaganda. In the summer of 1952, after the United States had been strongly advocating Austrian independence for six years, considerable resentment was felt at American opposition to the Austrian Government's proposed political amnesty laws. It was quite reasonably considered that this attitude constituted unwarrantable interference in Austria's internal affairs. 727

As Austria was only involved in the War as part of Hitler's Empire, the treaty that is to restore her independence has, by general consent, always been described as the State Treaty, not the Peace Treaty. That is to say, no Peace Treaty is needed between the four occupying Powers and Austria, because a state of war has never existed between them. What is required is a State Treaty laying down the terms on which an independent Austrian State is to be reconstituted after its forcible extinction by Hitler. 728

The story of the negotiations to bring about such a treaty extends over the period from 1946 to the present time. It has been confused by the complexity of Russia's obstructive

[p 203]

XII

Russian Obstruction

AFTER the Four-Power compromise on the question of German assets in the spring of 1949 the responsibility for delaying agreement on the Austrian treaty lay clearly with the Soviet Union. Inside Austria also Soviet policy was the main obstacle to the country's progress towards political freedom and economic self-sufficiency. 727

The Control Agreement of June 1946 provided that negotiations for its revision were to begin within six months, and made quite clear by implication that the revision was intended to increase the Austrian Government's powers. Yet the Russian authorities soon left no doubt that they were not going to fulfil the spirit of the agreement and that they wanted in a number of respects to restrict the powers that had been granted. In fact, without the energy and persistence of Austrian leadership and the vigilance of the Western Powers even the measure of freedom already gained would not have been preserved. The difference of opinion between Russia and the West regarding the Austrian Government's authority has persisted ever since. The American High Commissioner's Report for the third quarter of 1950 pointed out that negotiations in the Allied Council were less concerned with helping Austria to self-sufficiency than with whether she should be allowed to retain the degree of sovereignty she had achieved.

One respect in which the Russians failed to fulfil their obligations was in their attitude towards the zonal boundaries. The agreement laid down that all controls over the movement of goods and persons within Austria should come to an end, except those prescribed by the Allied Council and those that were necessary in frontier areas for the effective regulation of international traffic. Soon afterwards the Americans and the British began the progressive relaxation of zonal controls, and

727 were later followed by the French. But the Russian authorities still maintain road and rail controls over their zonal boundaries at the present time.

More serious and insidious was the attempt made by the Soviet element to limit the authority of the Allied Control Commission and extend the clause of the Control Agreement which provided that agreements between the Austrian Government and one of the four occupying Powers did not require to be approved by the Allied Council. Had this attempt succeeded, the Austrian Government would have been subject in many matters, not to quadripartite supervision, but to the authority of a single occupying Power. The Soviet representatives cleverly raised the matter in connexion with a law passed by the Austrian Parliament in 1946, to implement a dollar credit agreement between Austria and the United States. The Quadripartite Finance Directorate unanimously recommended that the law should be approved by the Allied Council. But the Russian member of the Council took up the position that the Council could not discuss the question, and that the Austrian Government should be notified that agreements and legislative measures concerning one of the four Powers should not be submitted for consideration by the Allied Council. The three Western representatives fortunately saw the wider implications of this suggestion and insisted on the distinction between an agreement and legislation arising out of an agreement. All Austrian legislative measures, they maintained, had to be submitted to the Allied Council.

727
205
There were a number of matters in which the Western Allies wished to alleviate the burdens and restrictions resting on the Austrian people and in which the Soviet authorities pursued a policy of complete or partial obstruction. As has been seen, the Russians refused to consider two proposals for reducing the occupying Forces put forward by the Western Powers. Postal communications between Austria and the rest of the world were progressively restored until December 1948, when letters were allowed to be sent to Japan, the last country on the list. But the Russians held up this process by opposition

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

on such trifling matters as the categories of mail permitted, 727 and at certain stages in the restoration of postal facilities with 205 Germany and Japan 'printed matter' and registered letters became subjects of discussion between the High Commissioners. All four occupying Powers had broadcasting 207 stations under their control, but the Russians, being in possession of RAVAG, the main Vienna station, could cause most inconvenience to the Austrians. In 1950 the Soviet authorities gave orders that the despatches of the Russian news service, known as TASS, were to be broadcast in full, as part of the Austrian news, without being attributed to their source. After a Communist official had punched the director of the Austrian news bureau on the nose, the Austrians maintained their right to do as they wished with their news broadcasts. During the same year a Western proposal that a Viennese television station should be approved was dropped owing to Soviet insistence on conditions that would have led to its falling under Soviet domination. The Russians also did all that they could to hinder the development of Austrian civil aviation, and a Department of Civil Aviation in the Austrian Government that was established with Western support in 1947 has been able to accomplish very little. On a higher level, the Soviet authorities consistently opposed Austria's applications to join the specialized agencies of the United Nations, and their efforts were only thwarted owing to Austrian determination and world-wide support for her membership.

On the two questions of censorship and the police the 727 Soviet policy of obstruction was particularly stubborn. In the 206 light of Russia's record in its satellite countries, the choice of 205 these subjects for special treatment is a cause of no surprise.

The origin of the Allied censorship in Vienna goes back to the autumn of 1945, when a Quadripartite Signals Committee was formed to supervise such restrictions on civil communications as were necessary for security reasons, until the Austrian Government assumed normal responsibility. A quadripartite censorship was set up in the Schillerplatz in Vienna which controlled all telegrams and telephone calls between Austria

● 727
206
205

and foreign countries and censored all foreign mail going in and out of Vienna and the Russian zone. The committee laid down that all communication developments undertaken by the Austrian Post and Telegraph Administration required the unanimous approval of all four occupying Powers, and informed the administration at once that the construction and allocation of communication lines between Vienna and the outside world were subject to the unilateral agreement of the Soviet Command. As these lines would all have to pass through the Russian zone, this was a natural arrangement to make in the days before there was a serious rift between Russia and the West. Since that time the Soviet authorities have consistently refused to give up the powers allotted to them in these circumstances.

The Austrian Government has made numerous requests that the Allied censorship restrictions shall be raised. These have been supported by the Western Powers, who have abolished censorship in their own zones. But the Soviet High Commissioner has refused to alter the existing system, and he even suggested in 1948 that foreign mail for the whole of Austria should be subject to centralized censorship in Vienna. A Western proposal for the censorship of telephone calls near the frontier was turned down. So the absurd system continues by which a 10-kilometre call between Feldkirch in the Vorarlberg and Buchs in Switzerland has to be routed through Vienna over 500 kilometres away. On one occasion the Russians took exception to a short technical telephone line in connexion with a river power-station, on the grounds that one end was in Austria and one in Germany, and maintained that all calls on it should be diverted to Vienna for censorship.

The existing system gives the Soviet authorities a hold over Austrian communications with abroad which they show no sign of relinquishing. The Western Powers only take part in it in order to prevent it coming entirely under Soviet control. In June 1950 it was revealed that the Russians had their own tapping arrangements in the Schillerplatz in addition to the official quadripartite censorship, when a Soviet officer ill-

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

advisedly came up from the basement to the switchboard to 727
complain that he could not hear a certain international call
that was in progress. During the same year the Russians 206
ordered the disconnection of three transit telephone circuits 205
between adjoining countries which pass through Austrian territory without connecting into the Austrian system. They also arbitrarily disconnected the Yugoslav Government's teleprinting station in Vienna.

In December 1951 the Austrian Government's impatience with these proceedings caused the Chancellor to send a note to the Allied Council announcing the Government's intention to substitute the name 'Allied Censorship Agency', for 'Austrian Censorship Agency'. 'Censorship in Austria', he wrote, 'is exclusively performed according to the instructions of the occupying Powers. In no way does it serve Austrian interests. On the contrary, it runs counter to them.' The Government also announced its decision to dismiss all the 863 employees under contract with the Censorship Agency. Yet, in spite of this protest, the censorship continues. The Austrian Government defrays three-quarters of the cost. The work is still carried out by Austrians, who are mostly Communists chosen for the purpose by the Russians in 1945. And the cumbersome and wasteful procedure gives no satisfaction to anyone except the Soviet authorities and those for whom it provides employment.

In the months immediately following the liberation it was 727
the clear intention of the Russian military leaders to establish
control over the Austrian police. As many Communists as 625
possible were introduced both into the ranks of the active police force and into the most responsible administrative positions. The effects of these efforts were still noticeable six years later. But Russian influence was checked when the Western Powers arrived in Vienna, and it ceased to be preponderant after the 1945 elections. From then on the object of Soviet policy was to limit both the numbers and efficiency of the police.

The Austrian Government repeatedly asked the Allied

727 625 Council for permission to arm the police on an adequate and uniform scale. Its requests were supported by the Western Allies and turned down regularly by the Soviet Element. Appeals for modern radio equipment met with a similar response. The results were particularly serious owing to the high incidence of violent crime after the War and the fact that the criminals were aware of the deficiencies in police equipment. In the autumn of 1948 the Soviet authorities closed down four training-schools for *gendarmerie* in the Russian zone and refused to allow the transfer of students to other schools. When the matter was referred to the Allied Council, the Soviet High Commissioner refused to discuss it and justified his position on the ground that the Council had failed to limit the size of the police. His attitude was echoed by the Communists in the Austrian Parliament, who shortly afterwards opposed budgetary provisions for strengthening the police.

Supported by the Western Allies, the Austrians went quietly ahead with reorganization and re-equipment. As the Allied Council could not agree, the work was carried out on a zonal basis, and the police in Austria as a whole soon reached a high level of efficiency. In fact, the negative Russian behaviour eliminated central restrictions as well as central aid. But there has been no more revealing evidence of the Soviet Government's attitude towards the Second Austrian Republic than the changing policy of its representatives towards the police.

The Russian attacks on the Austrian Government, which were made at convenient stages in the treaty negotiations, were also useful to justify the Russian policy of obstruction carried out within Austria. The Austrian denazification programme was violently criticized, and as late as 1950 the Soviet representative in the Allied Council demanded that the Austrian Government should establish concentration camps for the imprisonment of implicated Nazis. In April 1950 the Soviet High Commissioner alleged that the Austrian *gendarmerie* in the Western zones was being organized, armed and equipped, in violation of existing Allied Council agreements, to provide a basis for a future Austrian army. In September of the following year this charge was repeated and expanded, 727 when the High Commissioner stated that Austria's war industries 625 were being re-established in the Western zones and that aeroplane plants and rocket factories were being built to serve Western re-armament. During his refutation of these charges the United States High Commissioner invited General Swiridow, his Soviet colleague, to come and see the imaginary installations for himself. The invitation was not accepted.

All the forms of obstruction that have so far been mentioned related to the Allied Control Commission and affected the Austrian Federal Government. But Soviet political interference attracted most attention in the Russian zone and the Russian districts of Vienna.

It would be misleading and unfair to assume that the 727 numerous and serious cases of interference that occurred were typical of day-to-day administration in the Russian zone. The whole atmosphere in Eastern Austria is different from that in the Western zones: more buildings are requisitioned, there are more troops, and there is an underlying feeling of uncertainty and insecurity. But Austrian and Allied officials, who have been in close touch with the Russian authorities, agree that on the whole they have adhered to their written agreements regarding the political administration of occupied Austria. Their relations with the police have normally been co-operative and correct. It is possible for an Austrian to live in the Russian zone, and for a foreigner to move about in it, and yet scarcely be aware of anything unusual in the situation. The local government is Austrian, and the laws enforced are the enactments of the Austrian Federal Government. The gloomy pictures of political conditions in the Russian zone that are often painted in foreign countries and the rest of Austria are due mainly to the Soviet Government's attitude towards Austrian independence, its record in Eastern Europe, and the excesses of Russian troops immediately after the War. The conditions are unpleasant compared with those in the free countries of the West and in Western Austria, but they

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

727 are incomparably better than in Eastern Germany or in the Russian satellites behind the Iron Curtain. Although the Second Austrian Republic is subject to varying degrees of unwelcome supervision, it is a unit very largely under Austrian control.

The most blatant examples of interference in the Russian zone have been the many cases of arrest and kidnapping. The new Control Agreement provided that the Allies could take direct action to ensure the security of the occupying Forces. All four Powers took advantage of this provision, but, whereas the Western Allies did so to a limited extent and kept the Austrian authorities informed, the Russians carried out arrests on a wholesale scale, and often by arbitrary and secret methods. For example, in 1950, out of a total of 320 Allied arrests, there were 20 American, 7 British, 14 French, and 279 Russian. The next year the Western Allies arrested 28 people and the Russians 137. In 1951 the Chancellor complained that the Soviet authorities had instructed individual Austrian policemen to carry out arrests on their behalf and forbidden them to report their actions to their superiors. Such procedure, he pointed out, would lead to chaos in the police administration. On previous occasions, arrests had been made by Soviet troops, and neither the Austrian police nor the relatives of the victims had been informed. These methods reduced measures that might have been legitimate in themselves to the level of common abduction or kidnapping. The arrested persons in many cases simply disappeared, and no information could afterwards be obtained regarding their whereabouts. In 1951 State Secretary Graf of the Ministry of the Interior said that over 700 people had vanished in this way and that in only a few cases did their subsequent fate become known. Many of the victims were nationals of Soviet-dominated countries, whose right of asylum was thus violated. But the most sinister arrests were those in which the main motive was political intimidation. Outstanding amongst these were the cases of Inspector Marek, a senior official of the Ministry of the Interior, and a policeman named Kiridus, both of whom were arrested during the summer of 1948, apparently while themselves conducting investigations into a recent series of kidnappings. 727 The Austrian Government protested vigorously, and the matter was taken up a number of times by the Allied Council, but it was not until over three years later that the Soviet Foreign Ministry revealed that Marek was serving a twenty-five years' sentence in the Soviet Union for 'organizing espionage against Soviet occupation troops'. In 1948 Frau Dr. Ottillinger, an important official in the Ministry of Economic Planning, was actually arrested on the frontier between the Russian and American zones, while in the company of her Minister, Dr. Krauland.

Although Russian relations with the local police have 727
generally been reasonable, there have been isolated exceptions 625
to the rule.

The Soviet authorities could scarcely interfere with the measures taken by the Minister of the Interior to ensure the loyalty of the police as a whole, and early in September 1947 Dr. Duermayer, the Moscow-trained Communist chief of the Vienna State Police, was transferred to a similar office in Salzburg, where, in the heart of the American zone, he would be comparatively innocuous. Within six weeks the Police Chiefs of St. Pölten, Baden, and Wiener Neustadt, three of the most important towns in the Russian zone, were dismissed by the Soviet authorities on what the Austrian Government considered to be unsubstantiated grounds.

The worst cases of interference with the police occurred during and after the Communist attempt to organize a general strike in the autumn of 1950. The Soviet authorities forbade certain movements of police in Vienna and the Russian zone, and so hindered the re-establishment of law and order at a critical time. After the disturbances were over a number of police officials were dismissed or retired by the Austrian authorities for their behaviour during the crisis. The Russians ordered their reinstatement, and the tragi-comedy that ensued had not ended at the beginning of 1953. The police chiefs in two districts of Vienna were held in office by Russian orders and were at the same time treated as pensioners by the Austrian

727 625 Police Headquarters which communicated with the District Offices concerned through the Assistant Chiefs. There could be no better example of the curious division of authority in occupied Austria nor of the persistence of the Austrian Government in maintaining points of principle.

The systematic confiscation, during the Christmas holiday 1952, of the rubber truncheons belonging to the police in the Russian zone was a measure that might well have been prevented by the Soviet propaganda department. The justifiable annoyance that it caused was somewhat modified by the Austrian sense of humour.

727 As regards the political administration in the Russian zone, there was little open interference by the Soviet authorities except in minor matters. Cases in which local officials were arrested were not unknown, and town and village burgomasters were subject to the expressed or implied threats of Russian military commanders in the areas where they were stationed. But, on the two occasions when the Soviet authorities appeared to be contemplating interference on issues of major importance, they either thought better of it or received countermanding orders from above.

In the spring of 1950 the Russians expressed their disapproval of the provincial laws which provided for the holding of local elections in Lower Austria and Burgenland. Under the terms of the Control Agreement there was no reason why their disapproval should have any effect, and the Austrians proceeded to hold the elections. The voting took place without incident, and in the parishes, municipalities, and sectional chambers the Communists were crushingly defeated. In the parish and municipal elections in Lower Austria the Communists got less than 6 per cent of the votes, and all the Communist mayors that had been put in by the Russians in 1945 were replaced.

During the autumn of 1952, when the election campaign was beginning, the Minister of the Interior informed Parliament that Soviet officers had given orders to two different Austrian authorities banning the Union of Independents in the Russian zone. He added characteristically that he saw himself 'compelled to instruct the Austrian authorities to ignore the orders'. Shortly afterwards the Minister's statement was denied by the Soviet Information Service, which explained that an officer at Soviet military headquarters had merely declared that Nazi and militarist propaganda would not be tolerated in the Russian zone. It appears that in face of a strong stand by the Austrian Government the Russians felt bound to respect the electoral procedure of a true democracy, different as it is from the parody to which they have themselves become accustomed.

An irritating form of interference with Austria's political freedom was the Russian invitation to various Communist international organizations to hold meetings or establish headquarters in Vienna. The World Federation of Trade Unions was expelled from Paris by the French Government in April 1951. The following month it transferred its headquarters to the Russian-controlled Coburg Palace in the heart of Vienna. Later in the year the International Organization of Political Persecutees and the World Peace Council held meetings in the Austrian capital, and in the autumn of 1952 the World Peace Congress met there. These events took place against the wishes of the Austrian Government and people, and in October 1951 the Government declared the presence of the World Federation of Trade Unions to be illegal. But its efforts to expel the non-Austrian members were prevented by the fact that they were living in the Russian districts of Vienna or the Russian zone. The great majority of the Viennese revealed their feelings unmistakably by silently ignoring the demonstrations organized by the World Peace Congress.

In spite of the many examples of Russian political obstruction in Austria, both at the centre and in the Russian zone, their general effect did not compare in harmfulness with the diplomatic obstruction that delayed signature of a State Treaty. But economic interference was practised by the Soviet occupation authorities on a scale and with a ruthlessness that made it one of the two main debit items in the balance-sheet between Austria and the Soviet Union.

727 During the period between the liberation and the Potsdam Conference, Russian troops carried out widespread looting, and the Soviet military authorities organized the systematic dismantling and confiscation of industrial equipment, vehicles, and rolling-stock. Vital installations like the Donawitz rolling-mill and the main turbines of the Vienna power-stations were dismantled before the Potsdam decisions gave such actions a measure of legality. No exact figures can be given for the value of Soviet depredations, but the loss to the Austrian economy through confiscation of installations and equipment before and after Potsdam has been reasonably estimated at over $200 million.

Since the Austrian electorate's first decisive vote against Communism the Soviet Government has, in a number of ways, deliberately hampered Austria's economic revival. Whatever may be the merits or demerits of nationalization in normal circumstances, the Government's nationalization programme was necessary, on the whole, under post-War conditions to co-ordinate industrial recovery. The nationalization laws were strongly opposed by the Soviet representative in the Allied Council, and have never been recognized by the Soviet authorities in their own zone. The Russian representative also violently attacked Austrian participation in the European Recovery Programme. Most revealing of all, in September 1946 a Soviet proposal came before the Allied Council to restrict Austrian production of various items for the next ten years. The proposal not only included armaments and strategically important materials, but recommended fixing the basis of industrial production at the level reached before the *Anschluss*.

The Soviet Government's main economic programme in Austria was the exploitation of her natural and industrial resources on the pretext of exacting reparations from Germany. This served the dual purpose of hindering the country's recovery and substantially benefiting the Soviet economy.

727
471 As has been seen, the term 'German assets' which was used at Potsdam was vague, and the Four Powers never succeeded in agreeing on a definition. During the German occupation of

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

Austria, apart from State property having been taken over 727 by the German Government, most of the leading industrial enterprises had been absorbed in one way or another by the 471 big German concerns. The absurdity of the situation resulting from Potsdam was made clear in May 1946, when a member of the National Assembly pointed out during a session that the Parliament building did not belong to the Austrian people, but was a 'German asset'. Dr. Renner summed up the position by saying: 'If all the concerns that were stolen or swindled from us by Germany are taken away, Austrial will . . . be incapable of an independent economic existence.' More recently, in December 1951, Dr. Klaus, Governor of Salzburg, suggested that had Austria enjoyed the full income from the 'German assets' seized by the Russians it could have dispensed with Marshall Aid. The validity of historical 'ifs' can never be proved, but Austria's total losses to the Russians, including dismantling, evaded taxes, and the products of industry and the oil-fields, have been approximately equal to her gains from the United States under the European Recovery Programme.

The Austrian oil-fields were the largest single asset taken over by the Soviet Authorities. 721

Before the *Anschluss*, Austrian oil production was largely in 582 the hands of two concerns financed by British and American +71 capital: the 'Britol' Oil Company, later to become the Richard K. van Sickle Deep Drilling Enterprise, and a joint undertaking of the Shell and Vacuum groups, known as RAG. In 1938 a number of German companies entered the field and, in addition to undertaking extensive new developments, forcibly took over some of the oil-fields and refineries owned by British and American companies. As production rose from 32,849 tons in 1937 to 1,213,036 in 1944 under the stimulus of German effort, there was a *prima facie* case for the Austrian oil industry being largely a 'German asset'. On the other hand, human enterprise is only one element in oil production: the oil itself is at least as important. The fact that Germans had ruthlessly exploited Austrian oil to satisfy their war needs gave the Russians no right to confiscate one of Austria's most

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

727 valuable natural resources under the pretence that it was
382 German property.

471 The Austrian Nationalization Law of 1946 included the oil industry, but, so far as oil in the Russian zone was concerned, it never went into effect. In the summer of that year the Soviet High Commissioner announced that all the German-controlled oil-fields had been taken over as 'German assets'. The Soviet Mineral Oil Administration (SMOA) was set up to manage them.

The Soviet authorities did recognize British and American ownership of certain oil-fields and refineries that had not been taken over by the Germans. They are still under British and American management, but are subject to various measures of Soviet control. The producing companies are required to sell their crude oil to SMOA. The refining companies have to buy this oil from SMOA and resell to it the refined product. Payments are made to the British and American concerns in Austrian schillings, after the deduction by SMOA of arbitrary sums for administrative expenses. The disposal of the oil remains in Soviet hands, and the concerns are not able to export it, as they might wish. This limited recognition of foreign rights does not therefore benefit the Austrian trade balance in any way.

727 Exact statistics are not available for the Austrian oil industry
since it has been under Soviet control. But it has been esti-
382 mated by the best-informed authorities that production rose
433 from 846,600 tons, to which it had declined in 1946, to about 3,200,000 tons in 1952, and is thus now probably the highest in Europe.[1] This increase indicates the anxiety of the Russians to extract all they can from the Austrian oil-fields while they have them under their control. The result has been achieved by extensive new boring and by the employment of damaging and uneconomic methods that would normally never be used.

It is significant that the expansion has practically been confined to the ex-German enterprises under purely Soviet control, which have had full freedom of action and exploration.

---

[1] Reliable figures for Roumania, its only possible rival, are not available.

During the past few years the proportion of the total yield 727 produced by British and American concerns fell from about 382 15 per cent to less than half that amount. It is even more 433 significant that the 60 per cent of the oil-fields and the prospecting rights that the Soviet authorities suggested should be retained by them under the terms of the draft treaty of 1949 have proved, as was suspected at the time, to be by far the most productive and promising areas. Had the draft treaty been signed and the Soviet allocations accepted, the proportion of oil production now in Soviet hands, on the basis of 1952 figures, would have been 92 per cent instead of 60. The proportion of known oil reserves would have been even more favourable to the Russians.

Soon after the War ended the Russians suggested to the Provisional Government that Austria and the Soviet Union should share the installations and rights in the oil-fields on a 50–50 basis. Dr. Renner had the foresight to reject this offer, which would have given the Russians a permanent footing in the country and had serious political implications. But since then Austria, though so large an oil-producer, has not even been able to purchase from the Soviet Oil Administration enough petrol and other forms of oil from its own production to satisfy its modest needs. It has had to resort to imports from the United States, and on at least one occasion is said to have bought from Western Germany Zistersdorf oil sent by the Russians to Eastern Germany and then exchanged with Western Germany for industrial products. The quantity of oils allotted for home consumption has increased annually with total production since 1949. In 1951, for the first time, domestic needs were practically satisfied. But Austria during the whole post-War period has been allocated no more than about a third of her total oil production. The remainder has been sent eastwards by the Russians, chiefly to Czechoslovakia, East Germany, and Poland.

This state of affairs has of necessity been accepted by the 727 Austrian people. But a welcome demonstration of impatience 382 was given by the National Assembly when a resolution was

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

● 727 382 passed by the People's Party, the Socialists, and the League of Independents, in November 1952 calling upon the Minister of Finance to enter into negotiations with the Soviet occupation authorities to ensure that Russia shall pay full compensation to the Austrian Republic for all petroleum removed from her oilfields since 1945 and meet all its obligations with regard to taxes and customs dues, as required by Austrian law.

727 471 The remainder of the enterprises, large and small, that have been seized by the Russians as so-called 'German assets' have been administered by one vast organization known as USIA—the initials of the Russian title meaning the Administration of Soviet Property in Austria. The Soviet authorities decided for themselves what they were going to take over as reparations and announced the list during the summer of 1946. The Soviet High Commissioner would allow no discussion of the subject in the Allied Council and made clear that he considered himself the only authority. As the Potsdam Conference had allotted German property in Eastern Austria to the Soviet Union without definition, the Western Powers had no alternative but to accept the decision.

The USIA concerns being entirely under Russian control, full information and statistics regarding their organization, production, and equipment are not available. But a fairly accurate general impression of their extent and method of working can be obtained from reliable sources. The Austrian Minister of Finance stated in Parliament in August 1951 that 471 USIA enterprises were listed with the Treasury, of which 351 were commercial, 100 agricultural, and 20 mixed or doubtful, and that altogether about 60,000 insured persons were employed in them. Since the War USIA has been the largest landholder in Austria. In 1951, a total of 115,980 hectares[1] of land were held by the occupying Powers for aerodromes, military purposes, agriculture, and forestry. Of this area no less than 112,747 hectares were in Russian hands. Some had been taken over soon after the War to produce food for the Soviet forces, and the remainder had been seized as 'German

---

[1] A hectare equals 2·471 acres.

assets', although a good deal of it was Jewish property that 727
had been 'aryanized' by Hitler. At the beginning of 1953,
54,000 hectares of agricultural and forest land alone were under 471
USIA's control.

The key positions in USIA have been concentrated increasingly in Soviet hands. 727
In the central administration Russian influence is dominant, and the Austrians who remain 471
in it are either technical experts or Communists. Until 1952 475
the head of the USIA selling organization was an Austrian, but he and his wife then escaped to France after a disagreement with the Soviet authorities. Two Russians thereupon became managing director and deputy. In the individual firms the management depends on the importance of the enterprise. Some are run entirely by the Russians, while others are under purely Austrian control. Between these two extremes there is every kind of mixed management. All accounting is done through the central administration, and, to maintain secrecy regarding USIA's affairs, every enterprise deals with the Soviet Military Bank, which was organized for the Russian zone of Austria with its head office in Vienna.

Some USIA products are sold on the Austrian market. But the greater part of them are sent by rail or river to Soviet Russia and Eastern Europe. They are a dead loss to the Austrian economy, because no imports are received in return. The USIA concerns pay wage taxes and the ground tax levied by the local government authorities. But they do not pay income tax, profit tax, or the property tax due to the Federal Government. The Russians maintain that they do not pay these taxes because Austria will not transfer the titles of the USIA properties to them. The Austrian Government, backed by the Western Allies, does not recognize the Soviet right to the properties, and maintains that a legal transfer would be possible only if the companies were dissolved and the shareholders handed over the assets to the Soviet Union. The losses to Austria up to the end of 1952, in respect of USIA exports and unpaid taxes, have been estimated at nearly $200 million and $30 million respectively.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

727 471 475 Austria's indirect losses owing to USIA's activities are also very considerable. Raw materials and finished industrial products go in and out of Austria as Soviet property without payment of customs duties. Quite apart from the financial loss this entails, USIA exports are thus able to undercut Austria's legitimate industries in East European markets. At the same time the equipment and efficiency of USIA factories are gradually being allowed to deteriorate, as little or no attempt is being made to renew and modernize plant. When the concerns are eventually returned to Austrian ownership their value will be much lower than it was when they were taken over.

A most damaging and sinister aspect of USIA's work has been its entry into retail trade during the past few years. At an early stage USIA imported cigarettes from South-east Europe without payment of duty, and sold them in large quantities on the black market at the expense of the Austrian exchequer. This was followed by the establishment of retail shops in Vienna and the Russian zone. Two hundred of them were opened between the summer of 1950 and the summer of 1952. Like other USIA concerns, they pay only a proportion of the federal and local taxes due from them. In addition, they pay no customs, excise, licence dues, or monopoly taxes on the goods sold, and are thus able to undercut legitimate retail businesses and at the same time make a good profit. The Government makes every effort to discourage people from patronizing them, but the low prices are a temptation difficult for the poor to resist. The shops also are varied and inconspicuous in character, and many purchases are made in them without the customers knowing what they are doing.

In contrast to the enterprises taken over as 'German assets', the establishment of the USIA retail shops had no legal justification whatever. There can have been only two motives for setting them up: a deliberate attempt to undermine the Austrian economy and a desire to make profits at Austria's expense, in particular, to offset losses on inefficient management in the main USIA concerns.

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

Austrian political leaders have attacked the USIA retail businesses repeatedly. The Minister of Justice has made clear that Austrians found guilty of evading customs and excise by dealing with USIA will be punishable under Austrian law. The Soviet authorities themselves have shown some signs of embarrassment at this branch of their activities. After the first two years its expansion slowed down considerably. A strong trade union protest against USIA shops remaining open until ten o'clock at night was followed by their compliance with normal closing hours. 727 471 475

In fact, Soviet policy in Austria, in spite of its ruthless economic exploitation of the country, has shown repeatedly a capacity for compromise and the unexpected conciliatory gesture. The Austrian Government has been firm, bold, and insistent in the assertion of its rights, and the Soviet authorities have shown themselves to be very sensitive to public criticism, especially on issues in which popular privileges have been involved. In spite of everything, the impression remains that the Soviet Government has never entirely forgotten the importance of considering its reputation with the Austrian people. 727

On the economic side, the best example of the flexibility of Soviet policy is provided by the attitude of the Russians towards the navigation of the Danube. 727 505

The importance of the Danube to Austria as a means of communication requires no emphasis. Between the Wars the ownership of the Danube Shipping Company, the largest concern engaged in Danube traffic, was shared between the Federal Government, the Credit Anstalt Bank, and various Italian interests, the majority of the shares being held in Austria. As the Austrian holdings came under German control during the War, in February 1946 the Soviet authorities assumed ownership of the company, and at the same time took possession of two smaller companies. The Western Powers pointed out that these assets were of doubtful ownership and that the companies operated in more than one zone. They maintained therefore that the whole subject should be 471

727 considered in the Allied Council. But the Soviet representative
505 refused to discuss the matter, and the Russians proceeded to
471 take over all the property and installations of the Danube
Shipping Company in Eastern Austria and South-east Europe.

727 During the fighting in Austria the greater part of the
company's shipping was destroyed, but about 40 per cent of it
505 managed to reach Linz, mostly in very poor condition. There it remained under American protection, and during the early post-War years the company concentrated on putting the remnant of its fleet in order. Owing to the Russian attitude, river traffic ceased between Upper Austria and Vienna, and such ships as were available were employed on the stretch between Linz and South Germany. The freight carried by the company between Linz and Regensburg in 1950 reached a total volume of 690,000 tons, the cargoes consisting mainly of Ruhr coal for the VÖEST works, pig-iron, sheet metal, timber, and grain.

The first Russian concession in the direction of opening up the Danube appears to have been made from ulterior motives. After its breach with the Soviet Union, Yugoslavia was in a strong position as regards Danube navigation, because, at the Iron Gates, it could control river traffic between the Russian satellite States, if it so wished, just as Russia controlled traffic between Vienna and the West. Yugoslavia's freedom of navigation was therefore ensured, and in 1950 it started a service between Belgrade, Vienna, and Regensburg. To provide rivalry for Yugoslav ships the Soviet authorities in Austria began to issue licences for Austrian barges to travel between Vienna and Linz. During 1951 more than 73,000 tons of oil were carried in Austrian vessels from Vienna to Linz, and a smaller quantity of grain in the same way from Regensburg to Vienna. Cargoes for the year carried by Austrian ships on the Danube amounted to more than a million tons.

In June 1952 the Soviet High Commissioner informed the Federal Chancellor that, in the interests of the Austrian people and in order to improve Austria's economic position, navigation on the Danube within the Russian zone would henceforth be free. On the 12th of July the first passenger ship travelled between Linz and Vienna. In September an agreement was made between Austria and Hungary for the resumption of river traffic between the two countries in which each was to share equally. The reasons for these further concessions can only be surmised. But the motives almost certainly went beyond rivalry with Yugoslavia. One purpose may have been to please Austrian opinion. Another reason was probably a belated realization of the wastefulness of previous Soviet policy. The contrast between the enterprising developments in Western Austria and the economic deterioration of the Russian zone was becoming increasingly clear, and could only have a damaging effect on Soviet prestige. 727 505

Russia's attitude regarding the Danube, however, cannot be regarded as characteristic. The most hopeful indication for Austria's future is that the Soviet economic policy within Austria appears to be based on short-term considerations. The ruthless exploitation of the oil-fields and the failure to invest capital in the USIA enterprises both point in the same direction. It is a measure of Austria's economic suffering at Soviet hands that comfort has to be drawn from exploitation and neglect. 727

668 'Defend the freedom of the country. Do not allow yourself to be intimidated by acts of violence. The power of the State is sufficient to check terrorist action at the start, so no one should yield to Communist pressure.'

●727 668 In the Allied Council on the 29th of September the United States High Commissioner, who was in the chair, accused the Soviet element of having contributed to the recent disorders and lawlessness by encouragement and aid. He charged the Russians, amongst other things, with the following specific acts, violating quadripartite agreements: transporting rioters about Vienna in Soviet Army vehicles; blocking a railway line by means of a Soviet tank; interfering with the maintenance of law and order by stopping the movement of police, and preventing the police from checking rioters at St. Pölten railway station through the intervention of a Soviet official. The British and French representatives supported the American charges. The Soviet Deputy High Commissioner, in rejecting them, made the curious but typical statement that the unrest had been due to the indignation and bad living conditions of the Austrian workers resulting from the Marshall Plan.

665 668 Before the 4th of October it was already clear to the trade union leaders that an overwhelming majority of workers was opposed to a general strike. The Socialist Party had called, conferences of Socialist shop stewards in all parts of the country, and their opinion on the subject was almost unanimous. Outside Vienna and the Russian zone the only strikes that occurred were at Hallein in Salzburg, and at the Steyr works in Upper Austria, where the workers had been out since the 26th of September. In Vienna itself there was scarcely a single strike of importance outside the USIA organization, though the news that thirty censors had stopped work at one of the post-offices caused some unexpected satisfaction. This did not prevent the Communist Strike Committee from announcing publicly that the strike in Vienna was practically complete. More serious were the organized attempts at blocking tramways and railway lines and erecting barricades and traffic obstacles in the streets. These were only mastered

665 668 should come to an end on the 6th, but its decision had been anticipated by the Austrian workers.

668 •727 With commendable speed and determination in defence of its rights, the Government sent a note to the Allied Council on the 5th of October, complaining of the Russian action in Wiener Neustadt. On the same day the Foreign Minister despatched a telegram in a similar sense to the Foreign Ministers of the four occupying Powers. The three Western Allies replied with notes in which they expressed their sympathy with the Austrian Government's point of view and their approval of the measures it had taken. They later made official protests to the Government of the Soviet Union.

668 The Government also issued a proclamation in which it thanked the Austrian people for defending their country by their courageous attitude and for proving to the world that Austria would never become a 'People's Democracy'. On the 6th of October a demonstration took place in Wiener Neustadt, where 20,000 people celebrated the victory over Communism and were addressed by the Minister of the Interior and the Minister of Justice, who travelled down from Vienna especially for the purpose. The following day Burgomaster Körner and President Böhm of the Trade Union Federation attended another large victory demonstration before the Vienna Town Hall.

727 668 665 There are two questions that arise in connexion with the whole series of disturbances. What was the Communists' real intention? And how far did they receive Russian support? The answer to the second question throws light on the problem raised by the first.

There is no doubt that the accusations of the United States High Commissioner against the Soviet Element were justified. At the same time there was some truth in the reply of the Russian Military Commander in Vienna to the Burgomaster's protest. That is to say, the Soviet authorities wanted to ensure that the Communists had full scope for their activities, and were prepared to take limited measures in their support, such as making vehicles available and preventing movements of the

police. But they did not intend to give active aid to the 727 ●
demonstrators, and it is likely that such instances of it as
occurred were due to the over-enthusiasm of individuals. 668
Many people were injured in the disturbances and two men 665
died of shock. Yet there was not a single case of violent death throughout the whole period of crisis. Such a result would have been inconceivable had the Soviet forces been active in support.

It is probable, therefore, that the Communist intention was 668
to exploit popular dissatisfaction in order to bring about a
general strike and, by so doing, to get control of the trade 665
union movement. Had this intention been fulfilled, some modification in the Government might have followed, and the way would have been prepared for a further advance. The ultimate aim of the Communists, in which they could count on Russian support, was to turn Austria into a 'People's Democracy'. The 1950 action was a preliminary trial of strength.

The fundamental reason for the Communist failure was the Austrian people's attitude. But effective leadership and organization also played a vital part. Dr. Figl and Herr Helmer, the Minister of the Interior, were at their best at such a time. The Government acted with energy, courage, and persistence. The police, as a whole, were efficient, good-tempered, and loyal. The employees of the threatened public services were disciplined and reliable. Most important of all, the trade union leaders were unwavering in their attitude, and the great mass of the workers responded to their call. It was a fine proof of statesmanlike maturity that, in face of the Communist threat, the trade union movement stood staunchly by the Price–Wage compromise that none of its members really liked.

The Communist challenge had two important results. In spite of its failure, there had been a real trial of strength between two rival ideologies. The Communists had in their favour the initiative, the choice of time, and uncertainty regarding the extent of Soviet support. The victory of the Government and

5: Heissenberger S-4, 5 (no date) 1953 EK1 Austria EK1

THE ECONOMIC RECONSTRUCTION OF AUSTRIA 1945-1952

I. ECONOMIC SCIENCE IN AUSTRIA: TEACHING, RESEARCH AND WRITING

At the end of the Second World War, in 727●
April 1945, when Austria, in accordance with the Moscow Declaration of October 1943, had been admitted as a political entity into the circle of European nations, hunger, need and economic breakdown stood by as sponsors at the cradle of her newly erected statehood. The three political parties made a solemn declaration of independence through their faction leaders on April 27, 1945, concerning constitutional fundamentals and judicial and administrative arrangements necessary for the development of an articulate democratic life. At the outset they faced the difficult task of creating modest living conditions for the Austrian population. In view of the destruction of material potentialities, the undernourishment of the population, the absence of hundreds of thousands of experienced hands (still prisoners of war), the disorganization of the communication system, the dislocation of large parts of the population, the regrouping in the vocational structure, the lack of raw materials, fuel and electrical energy, and the disorganization of the monetary system and the urgency for reorientation of the entire economic scheme along the lines of changed European and worldwide economic aspects, a more active tempo of intellectual life could be achieved only slowly after overcoming the direst of needs (1947-1948). Then, however, fostered by the old, venerated seats of learning and the reestablished 815
economic organizations and institutions, a faster pace of acceleration set in which, in continuance of the best national economic tradition, soon reestablished the synthesis between theory and practice.

Pure science knows no prejudice, it favors 300
no particular political trend; it simply serves human progress. On the other hand, it is clear that in the endeavor to assert moral truth, science, in an ever critical and authoritative manner, has to separate truth from untruth, the genuine from the spurious, if it desires to accomplish its high task. Therefore, even a small country has to accept an

648 728 on March 15, 1938, as null and void and further expressed the desire to see a free and reestablished Austria. This accomplishment would enable the Austrian people, as well as neighboring nations confronted with similar problems, to find that political and economic security which is the only foundation of a lasting peace.

The powers augmented this declaration at the Conference of Yalta (Crimea conference of February 4 - 11, 1945) by agreeing to promulgate the reinstatement of sovereign rights as well as self-government for all peoples deprived of such rights by aggressor nations. To implement the practical exercise of these rights, liberated European nations should be assisted in the amelioration of want and need as well as in the creation of a (provisional) governmental authority in which all democratic population elements were to be represented on a broad basis, and which should in turn be required to establish, as soon as possible, a government, chosen by free elections, acting in accordance to the will of the people.

642 727 Based upon the repeated declarations of the powers the chairmen of the three political parties proclaimed the Second Republic of Austria on April 27, 1945, immediately after cessation of hostilities in Austria. In accordance with Article I of this proclamation the "democratic Republic of Austria" was reestablished and to be organized similarly to the constitution of 1920. Article II provided that the annexation forced upon the Austrian people in 1938 was to be considered as null and void. Therewith Austria joined again the family of European nations.

The first legislative acts of the provisional government concerned the framework of the constitution, the reestablishment of the legal system and the appointment of authorities. On the strength of the "Verfassungsüberleitungsgesetz" (i.e., the law to reestablish Austrian enactments for German ones), Austria was fundamentally reestablished as a democratic republic, revertin to the provisions of the federal constituion of 1920, as amended in 1929. Simultaneously a provisional constitution was agreed upon which regulated the government. In essential stipulations it conformed with the constitutional law of 1929. The "Behördenüberleitungsgesetz" (i.e., the law to reestablish Austrian authorities) was enacted to establish a new Austrian authoritative apparatus. It stipulated the definitive substitution of administrative and judicial instruments of the German Reich by

those of Austria as of July 20, 1945. This was 642
followed by the "Beamtenüberleitungs- und Staatsbürgerschaftsüberleitungsgesetz" (i.e., a law re- 727
establishing the Austrian status of employees and citizens), the reorganization of municipal law as well as the "Nationalsozialistengesetz," known as NS, the law prohibiting national-socialism (Verbotsgesetz 1945 and the Wirtschaftssäuberungsgesetz).

Following the arrangement agreed upon by 727
the powers, Austria was divided into four occupation 631
zones and their divisioning settled during August, 1945. The supreme occupation and control authority 642
is the Allied Commission for Austria in Vienna which retained a number of sovereign rights, but which little by little after 1946 transferred substantial shares of authority to the Austrian Federal Government.

At the Potsdam Conference (protocol of 728
August 2, 1945) the powers, examining the question of extending the executive power of the provisional government (Dr. Renner) which up to then covered only the Russian occupation zone, recommended the extension of this power to cover all Austria.

In the federal provinces, meanwhile, pro- 631
visional provincial governments were established and the federal provinces constituted, permitting the functioning of a provincial legislature within the jurisdiction of the constitution of 1929. At the same time the reestablishement of the Verfassungs- und Verwaltungsgerichtshof (i.e., a constitutional court) was prepared. On October 20, 1945, the Allied Commission for Austria finally authorized the provisional federal government, to enact laws for all of Austria (which, however, first had to be submitted to the Allied Commission for approval).

The elections of November 25, 1945, which had 666
been arranged by the election proclamation of the pro- 642
visional government, brought about the legalization of the endeavors of the provisional government, which resigned on November 28, 1945.

1945 Election: Tally of Votes and Seats

ÖVP (Austrian Peoples Party)	1,588,444 votes	85 seats	666
SPÖ (Socialist Party)	1,428,441 votes	76 seats	646
KPÖ (Communist Party)	174,387 votes	4 seats	
	3,191,272 votes	165 seats	

642 On December 3, 1945, a committee of the political parties entrusted Secretary of State Figl with the formation of a government, which the Allied Commission approved on December 18, 1945. On December 20, 1945, a session of the Federal Assembly (Nationalrat and Bundesrat) with a vote of 204 out of 205 elected Dr. Karl Renner to the presidency. He accepted the office for the term of six years.

642 642 The new federal government as well as the presidency were recognized by notes of the various powers although these notes showed deviations in texts. Thus the first phase of the constitutional reestablishment of the Second Austrian Republic was concluded. The federal government could proceed with the task of solving the most important economic problems.

2. The Situation after the Cessation of Hostilities and the First Economic Reorganization Measures, 1945-1947.

727 The reestablished Second Austrian Republic faced a great economic task. The losses and damages from the war destroyed almost a quarter of the total national capital which had amounted to about 38 billion schillings.

[362] In Vienna alone, 37,000 apartments were completely destroyed and 50,000 partly destroyed, while 25,000 were less severely damaged. Aside from extensive destruction of raw materials was the loss of machinery through dismantlements, especially in the eastern part of the country after 1945, which caused deficiencies in extremely valuable production material amounting to at least 1.2 billion RM (at prices fixed as of 1940). Plants of the electric, vehicle, machine, iron and metal industries, and steel mills lost more than 46,000 machines. This meant that in some instances, the combined loss of the war and postwar period amounted to 80 percent of the machines and equipment. [433] These deficiencies were all the more burdensome since the destruction and the removal of the production means led unavoidably to severe disturbances in the general economic scheme.

[162] Austria also suffered substantial losses in human lives. Out of a population of 7,000,000, the number of dead or missing totalled 350,000 and the wounded 170,000. These losses were mainly from the ranks of the able-bodied age groups (13 percent).

In comparison to prewar times a definite lowering of 721
individual performance efficiency had set in among
the rest of the population caused by years of under- [461]
nourishment and poor general physical condition
aggravated by a series of psychological strains up to [433]
1947. Another thing to be taken into account was the reorientation of the entire European economic structure in the wake of political changes, particularly the solution of certain problems of large industrial enterprises (the iron and steel industry). Last but not least were the great economic and political changes which had taken place in the areas of Austria's traditional markets, eastern and southeastern Europe.

[454] The destruction of capital substance weighed particularly heavy. It was obvious that the greater part of savings capital, accumulated prior to 1945, was economically no longer covered. Within the scope of a planned war economy that money had either been invested in weapons and war material which became valueless, or it was originally invested in profitable enterprises which were destroyed or diminished through the effects of the war, e.g., plants, equipment, razed woodland, etc. On the other hand, in accordance with instructions of the German finance administration, great parts of the liquid assets and reserves of banks, the premium reserves of large insurance companies, etc., had to be invested in bonds of the German Reich (especially Reichsschaftsanweisungen), whose value became as questionable as savings deposits.

652 In view of these circumstances the Austrian federal government faced difficult problems. For the sake of simply existing it was necessary to reestablish the financial foundation, a task impossible to accomplish without a proper Austrian currency (to be newly created), without gold or foreign exchange reserves to cover this currency, without a national bank of issue, without reconstruction of a banking and credit apparatus, and particularly without first straightening out the balances essential to large banking institutions.

Not any less difficult to solve, in relation 433
to the previously mentioned conditions, was the second
problem: the revival of production and trade. Apart [438]
from incurred losses in plants, machinery and raw materials, the disorganization of communication and the dislocation of great parts of the population, valuable components of the production apparatus as well as other natural assets of the Austrian economy, classified as

433 so-called "German property," were lost to Austrian control and thus lost to the economy.

652 [127] In the foreground, however, was the organization of the currency and credit structure. Until November 1945, Allied Military schillings and the Reichsmarks of the former German administration formed the currency basis of the country. Approximately 7.7 billion Reichmarks and 1 billion Allied Miliary schillings were in circulation, representing an inflation of 850 percent above the 1937 level. This circulation, compared with the almost negligible volume of goods and the low production capacity, made the money practically worthless. Here, therefore, was where the first measures of reform had to be effected.

In 1945 the provisional government provided the first legal foundation for the reorganization of currency and the credit system by the law covering payments by banks (Schaltergesetz), the law covering public and private credit extension (Kreditlenkungsgesetz) as well as the "Notenbanküberleitungsgesetz," which reestablished the Austrian National Bank. It created therewith the preliminaries for an orderly banking and payment service, for the time being still under the statutory power of the then provisional government. With the "Schillingsgesetz" of November 30, 1945, introducing the first currency reform and establishing the schilling as legal tender, the three aforementioned laws were extended to cover the three western occupation zones, the country as a whole received a uniform currency and banking system.

The "Schillingsgesetz" and the conversion decreed reduced currency in circulation (paper)from approximately 7.7 billion Reichsmarks and 1 billion Military schillings to 3.3 billion schillings and the aggregate circulation (banknotes plus contingent liabilities of the National Bank) to about 7 billion schillings. Parallel with this--the first control of all deposits having been effected by the previously mentioned "Schaltergesetz"--occurred a further appropriate blocking of deposited means to restrict purchasing power and inflationary price rises.

652 453 Beginning March 7, 1946, the issuance of bank notes was subjected to Austrian control, the legal basis ensued through an amendment of the "Notenbanküberleitungsgesetz," June 30, 1946, which also promulgated the statutes of the Austrian National Bank as a bank of issue. With the enactment of June 25, 1946, the Austrian National

458 originally anticipated, due to the prolonged interval
652 between the publication and the enforcement of the
law, the following months nevertheless did produce some economic results (lowering of prices, elimination of black markets and a general slackening of the purchasing psychosis).

727 In the meantime the occupation powers,
648 particularly the American and the British elements,
had introduced relief measures ameliorating need and
457 want among the Austrian population. One of the first was initiated by UNRRA, whereby, in connection with a number of special credits, a "subsistence level" was achieved. Additional assistance measures followed. On June 26, 1947, an agreement between the United States and Austria provided a new form of assistance, substituting for the UNNRA aid which was ending. For this "Austria Assistance" about 85 million dollars were provided. With these contributions of foodstuffs, commodities and machines, it was possible to start the reconstruction of the ruined communication system and to restore a modest production line.

Additional alleviation was obtained from a credit granted by the British Government for purchase of consumer goods. In October 1947, the Export Import Bank at Washington, D. C., granted Austria a credit amounting to 13 million dollars, of which amount 8 million dollars were placed at the disposal of the heavy and metal industry, 4 million dollars at the disposal of the chemical industry for purchases of raw materials and as equipment, while the remaining 1 million dollars served other purposes (freights, etc.).

652 Of particular importance was the establishment
727 of a regular budget. The first federal estimates (1946-1947) were, in view of conditions, only of an emergency nature.

The item of occupation costs was from the start a rather burdensome one. Until May 1946 these costs were covered by an additional issuance of bank notes. Beginning June 1946, all expenditures not covered by current incomes (including occupation costs as well as costs arising in connection with the welfare of displaced persons) were paid for with short-term treasury bonds, taken by banks, or with cash reserves. Later (July 1948) the expenditures of the occupation costs were
[651] met fiscally by an additional tax (occupation cost tax) to the income and wage tax.

During July 1946, the parliament passed the 471 first nationalization law (see part A, III, paragraph b). This nationalized, in addition to enterprises of heavy industry, mining and shipping, the three largest Austrian commercial banks (the Creditanstalt-Bankverein, the Oesterreichische Länderbank A. G. [453] and the Hypotheken- und Creditinstitut). With the federal law of March 26, 1947 (second nationalization [377] law), establishments and plants producing and distributing electrical energy were nationalized, because 90 percent of these establishments were already publicly or municipally owned.

During the years 1945-1946 only the greatest 433 difficulties were eliminated. A noticeable production increase, fostered by increasing imports of raw materials and food stuffs, occurred during 1947 at which time the coal situation was also eased and the crisis in the power sector could be ameliorated. The decisive turn of events in the economic consolidation, however, remained to be accomplished with the assistance of the Marshall Plan.

3. Special Problems in Austrian Reconstruction.

a) The question of "German Property."

At the end of the war, when Austria re- 471 ceived her independence (perforce limited because of 721 occupation statutes), her economic situation had been basically altered in comparison with 1937. The economically and organically different set-up of the German Reich made a reorganization of the economic status necessary. Austrian production means were diminished further by transfers of private as well as public production establishments into German hands, particularly after 1938. This "German Property" became fateful in Austrian economy with the Potsdam Agreement of August, 1945.

According to the agreed terms of the Allied Powers, German reparations were to include German assets located in countries previously occupied or controlled by Germany; these assets were to be subjected to the control of the various Allied Powers relative to their geographic location (in Austria according to occupation zones).

Under this title more than 200 enterprises in Austrian territory, mostly in the eastern part of the country (among them the entire oil industry,

727 chemical plants, large parts of the electric, iron
471 and metal industry), has been classified as "German Property" and were confiscated. Affected also was the Erste Donau Dampfschiffahrt-Gesellschaft (First Danube Steamship Company, Inc.), inasmuch as this enterprise had also been classified as "German Property" under the terms of the Potsdam Agreement.

The nationalized plants and companies (provided there occurred no mitigations such as those later in the western zones) remain not only lost to Austrian economy but complicate the coordination of Austrian production sectors inasmuch as these enterprises, particularly those located in the eastern parts of the country, are no longer subjected to Austrian jurisdiction.

Legally, the control and administration of German assets in Austria was to be effected in line with the control agreement of the Allied Commission for Austria on June 28, 1946. Article V of this agreement provides that the question of the "German Property" has to be settled in accordance with the agreement of Potsdam.

Later on, the interpretation of the stipulations, covering the "German Property," was not handled uniformly by the occupation powers causing a different treatment of such assets in the various occupation zones, a situation which resulted in legal, administrative and economic consequences for the Austrian national economy. This diversity in interpretation also influenced the nationalization proceedings as far as the "German Property" was involved. The occupation element of the United States of America, desiring to make these assets available to the Austrian economy, transferred the largest part of the relative enterprises located in its occupation zone to the competent Austrian ministry. The latter, as a trustee, has to furnish periodical accounts and reports. The French occupation element (taking exception to nationalization legislation on enterprises falling within the scope of Article V, paragraph 4, of the new control agreement) found a solution by leasing such establishments individually. The British element formulated no special provisions but permitted the enforcement of Austrian laws with regard to "German Property" located in its zone. The three western occupation powers finally released simultaneous directions, stating that any disposal of German assets, be it by sale or by other means, was prohibited, while the Union of the Soviet Socialist Republics decreed the transfer of such assets to a special administration created for this purpose (USIVA, later USIA). In the eastern part of the country, therefore, enterprises representing such assets became "foreign administrative and economic enclavements" within the Austrian economy. 727 471

The definite solution of this question, important to and difficult for the Austrian economy, however, is reserved to the signing of an Austrian state treaty.

b) The "nationalization legislation." 471

In connection with the question as to the scope of freedom and economic relationships to achieve the highest possible degree of national economic productivity (which had been brought up for discussion in a number of European nations), the Austrian authorities were compelled to cope also with the ideologies and trends relative thereto, whereby compulsory issues had to be considered.

With her nationalization legislation Austria endeavored to follow a middle course, which, via a transfer to the government of ownership rights with stipulated compensations, nevertheless permitted management of the various (nationalized) enterprises under the same economic requisites as those ruling the private sector.

The scope of nationalization was fixed by two nationalization laws, i.e., of July 26, 1946, and March 26, 1947. Both of these laws expressly stated the names of the enterprises concerned. However, if not specifically stipulated, only certain enterprises and not entire business sectors were nationalized. The two nationalization laws differ insofar as, under the first, the stipulated enterprises and plants became ex lege (immediately) properties of the government, while under the second the establishments of the electric power sector were transferred by order of the competent administrative authority. The second nationalization law therefore is solely an organization and omnibus bill.

While the administration of the government's participations in nationalized industrial and electric power enterprises (according to the federal law of December 16, 1949, decreeing the discontinuance of 471 655

471 475 regulations as privately owned enterprises.

If companies or enterprises, under the regulations of the corporation law, were for any reason not as yet able to install the required responsible executive managements (executive officers, board, stockholder meetings) the competent authority, in accordance with the terms of the federal law of July 26, 1946, installed public administrators. The privilege, however, does not apply to enterprises and plants working under their legally installed executive managements; such an existing status permits the government to introduce motions, by its delegated board members, only within the scope of legal corporate requirements.

[647] According to the federal constitutional law of June 16, 1948 (Rechnungshofgesetz), all nationalized enterprises are subjected to the accounting and business policy control of the Oberster Rechnungshof (superior accounting office of the government), which in turn is responsible to the parliament for rendering account.

By these means parliament wanted to prevent red tape in the commercially managed establishments.

453 652 727 c) The reconstruction of the Austrian credit institutions.

Following the loss of Austrian sovereignty in 1938, changes within the great Austrian banking organizations occurred. The Austrian National Bank disappeared as bank of issue, its Vienna organization became a branch office of the German Reichsbank, the substantial gold and foreign exchange holdings as well as other assets were transfered to the latter, so that from 1938 to April 1945 no independent money and currency policy was possible.

Likewise, the nationalized banking institutions were confronted with structural changes which, after 1945, brought about problems of balance adjustments. Therefore, if the entire question complex and the enforcement of relative measures are to be ascertained, it is necessary to become acquainted with the developments which have occurred. Austria, having been reestablished as a sovereign nation at the end of the war, faced a greatly changed situation in comparison with 1937. The prior assimilation into the economically and organically different economy of the German Reich, caused a far

453
652
[727]

reaching reorganization of the Austrian economic structure. What was needed after the political and economic disintegration of 1945 was, therefore, a basic recreation of the entire economic system, including (for reasons of monetary policy) the liquidation of the previously war-influenced German financial policy. In addition, it must be noted that in Southeastern Europe, previously representing a traditional Austrian interest and marketing sphere, political changes had occurred, making necessary write-offs of participations and accounts and a reorientation of previous relations. By having been made a part of the German Reich there occurred within Austria, because of the German methods in financing war expenditures, a substantial discrepancy between the amounts of money and goods available. On the asset side of the ledgers of the credit institutions special consideration was required for the so-called "Reichswerte" (bonds of the German Reich, treasury notes, treasury certificates), liabilities of the German Reich, its states and countries as well as of central and monetary clearing offices, the holdings of which increased rapidly during the first war years. They represented, as far as bonds, treasury notes and treasury certificates were concerned, mostly counterparts of deposits which had to be transferred to Berlin for conversion into such securities. That was done on instruction of German authorities in order to finance German war expenditures. At the cessation of the conflict these deposits, from a national-economic point of view, could no longer be considered covered, inasmuch as their counterparts became valueless or at best dubious as collateral. For reasons of the occupation zone division, at that time strictly applied, the "Schaltergesetz" was enforced only within the Russian zone, Vienna included.

From a monetary point of view the war's heritage consisted of an oversized volume of money and, for the time being, of losses to owners of securities of the German Reich, i.e., the banks and industrial enterprises.

The first legal enforcements (the "Schaltergesetz" of July 5, 1945, as well as the "Schillinggesetz" of November 30, 1945) were primarily construed to reestablish orderly monetary conditions, i.e., the setting of an ultimate money volume, the establishment of a new currency and the elimination of excess purchasing power.

plant managements, can be achieved only through 433
accumulation of an adequate yearly (savings) invest- 439
ment percentage (during 1950 investments in plants, 454
structures, rolling-stock, equipment, etc., amounted to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles.

Only such a procedure assures a genuine in- [434]
crease of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical.

On the basis of a favorable world-wide po- 433
litical scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims.

d) Budgetary developments.

Within the scope of combined reorganization
procedures, special attention is directed towards the 652
balancing of the budget. Due to the large expenditures 727
covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, e.g., occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts.

were classified productive or unproductive. The extraordinary budget centered, therefore, on the budget for investments. Since 1948 all remaining items (with the exception of reconstruction of war-damaged buildings and requirements of agriculture) were included in the current budget. 652

State expenditures have increased sharply since the end of the war through inescapable obligations (occupation costs and "Auslandsfürsorge") as well as through growth of investments. The much-critized overstaffing of the State administrative agencies, which was higher in 1949 by 23.6 per cent than in 1937, was caused by the increasing work of administration which could be reduced only gradually after economic consolidation. [727]

Non-personnel expenditures (Sachausgaben) kept pace with the expenditures for personnel since 1947; they have increased not only because of higher prices, but also have experienced a "real" increase. Among these expenditures, the so-called "social transfer payments"--pensions, unemployment insurance, rents, and child-welfare payments--have played a large role. The remarkably high amount in these categories may be explained by losses caused by the war. Approximately 169,700 disabled war veterans and about 340,700 dependents of war victims receive aid.

The costs of the State debt are comparatively low; no interest was paid up to 1947. Since 1948, however, the expenses for the state debt have increased more rapidly, reaching 309.7 million schillings in the budget of 1950, i.e., 5.1 per cent of current expenses as compared to 13.7 per cent in 1937. The German loans issued to finance the war were not recognized by the Austrian state; also, no interest has been paid for pre-war loans. Interests and amortizations are paid only on loans issued since the end of the war in Austria itself (bonds, reconstruction loan, state treasury bonds of 1947) and abroad (surplus credits, war asset credits, export-import bank credits).

The occupation costs, an item of heavy burden to the budget, were diminished due to the liberality of the USA in demanding no occupation costs since 1948 (paying for all their own expenses); the other occupation forces reduced the occupation expenses from 866.4 million schillings in 1946 to approximately 400 million schillings in 1950. But "Auslandsfürsorge" increased from 69.5 million schillings to 105 million 652 727

652 schillings in the same period. Of the occupation
727 costs the Soviet occupation force absorbs more than half of the total amount. Up to the fall of 1950 Soviet Russia received from current Austrian production about 1,094 million dollars as occupation costs and confiscation of Austrian properties abroad. (Help from the Western powers, especially the USA, has amounted to about 986 million dollars since 1945.)

655 Of the profit-making state-owned enter-
prises, which produced a surplus before the war, now
652 only those which actually constitute a state monopoly (salt, spirits) produce a surplus, while other state enterprises, the "Bundesbetriebe" (such as postal service and theaters) and the Federal Railways have a deficit. The deficits, however, are being decreased since 1946 by means of higher tariffs, dismissal of personnel and progressive rationalization (investments), from 17.7 per cent of expenditures in 1946 to 6.5 per cent in the budget estimate of 1950.

Out of the total revenue (based on the princi-
651 ple of net income) 80 to 85 per cent came from taxes
[652] levied since the end of the war. If one includes the income from various revenues similar to taxes (such as contributions to unemployment insurance, fees to child-welfare, etc.) the amount of taxes increases from 90 to 95 per cent, the remainder consisting of fees, interest and contributions from corporations and the income of the Postal Savings Bank (Postsparkasse).

The main support of the whole tax system since the end of the war is formed by direct taxes. Their part in the total tax income, in the years 1946-50, ranged between 44 per cent and 53 per cent as compared to 29 per cent in 1937; accordingly indirect taxes decreased in importance as compared to the prewar period. The income from the turnover-tax and from customs duties decreased from 42 per cent in 1937 to 24 per cent in 1950 as a consequence of structural changes in the system of taxation since 1938.

652 The Austrian treasury endeavors, in accordance with the bilateral agreement of July 2, 1948, to keep up the balance of the state budget and of the budgets of the federal countries (Länder) and municipalities, in spite of the enormous demands on public funds.

The main economic aim of the financial policy is to secure the highest possible employment and to continue the extension of all investments pertaining to economic productivity.

explained, come from ERP countries and comprise such goods as were, up to this date, to a considerable extent under indirect aid and were refinanced previously by the Nationalbank. There were special lists for all goods in question. 439 652 457

The cashing of these drafts takes place under the same conditions which apply to imports of semimanufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP funds are used only to finance investments which serve to balance payments in the shortest possible time, that is, investments which: 1) bring in foreign currencies (by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries. 652 454 457

When hostilities ceased in 1945, most of the industrial enterprises showed great impairment. This was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1338 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc. 433 727

727
311 In other fields too there were noticeable losses and a decline in real capital. One might observe in agriculture, for example, a deterioration of soil owing to the shortage of fertilizers and cultivation during the war years, a lack of seeds, fodder and agricultural machinery as well as declining yields in forestry due to overcutting of trees, obsolescence and lack of means of transportation from the forests to the mills. The robbing of coal mines, failure to introduce rationalization and the forcing of unrealistic work in other mines (metals) give us a full picture of a declining economy.

652
433
185
454 Reconstruction of a productive national economy could be successful only if the economic forces specifically characteristic of the country were activated and coordinated to secure an optimum of the whole economic productivity. This presupposes a knowledge of possibilities based on an inventory of the internal economy and lining up problems according to their importance (to avoid mistakes in investments or overextension). It also presupposes establishing a time schedule for the financial fulfillment of individual projects with a view to the existing shortage in capital. The reconstruction of primary production, as well as the most important industries, have been carried out according to special plans which were worked out by government authorities in cooperation with interested industrial circles. Planning covered, in particular, production of energy, coal mining, the iron and steel industry, and ore mining and the metal industry.

These plans are not limiting as to quantity or time but are a type of structural plans without time limitations, the realization of which is bound to certain financial or material possibilities. With the maximum supplying of internal requirements of energy, coal, iron, metals, etc., they intended to assure lower prices in the finishing industries. In this way a sufficiently high quota of exports should be obtained for a balance of payments. These plans form the theoretical basis for those investment programs which the Austrian government presents to the ECA in Washington and which are realized step by step with the help of the ERP funds.

Just as with other ERP participants it is Austria's primary aim in its investment policy to make the utmost use of all possibilities offered by the Marshall Plan up to 1952. In addition to the development of primary industry, the greatest effort is being made

328 316 It is thought that in the light-metals sector (production of aluminum) the bauxite mines at Unterlaussa (on the frontier between Styria and Lower Austria) will be extended to obtain at least the necessary raw materials for production. In accordance with the increase in the total European aluminum production required by the OEEC, Paris, Austria will endeavor to increase aluminum production in the smelting plants of the Vereinigte Aluminum Werke Ranshofen and in the plants at Lend of the Salzburger Aluminium Gesellschaft m.b.H. (up to 30 and 10,000 tons a year, respectively).

The production of non-finished metal products shall be extended by the completion of a light-metals plant of the Österreichische Metallwerke A.G., the construction of which is already far advanced and by the project of a heavy-metal plant of the same firm. These plants are designed to overcome the bottle-neck created by the loss of the plants for non-finished metal products (Krupp in Berndorf and the Enzesfelder Metallwerke). For the Metallwerke Plansee Gesellschaft m.b.H., Reutte (Tyrol), the erection of a plant for the production of molten molybdemum has been planned; in addition, the erection of heavy presses, granulating and sharpening machines for the production of heavy metals as well as of special electrolytical methods for the production of hard metal alloys (Diamantmetallegierungen) is proposed.

[652] In the scope of the investment program 1950-52 investments, 131.3 million schillings have been mobilized from counterpart funds for these industries. Of this amount approximately 40 million schillings (30.5 per cent) already has been allotted.

c) Investments in the electric industry.

377 [727] A large number of machinery units and steam-power plants were destroyed or lost by the war. The Austrian economy, therefore, could recover only very slowly in the years 1945, 1946 and 1947, particularly because the supply of energy was definitely insufficient in the months of water shortage. Since 1948, supported by the Marshall Plan, remarkable progress has been made in supplying energy within the economic planning for electricity. Austria tries to overcome the existing difficulties, which arise out of the rapidly changing demand for current on the part of industry, in two ways: (1) by the extension of storage facilities and of caloric

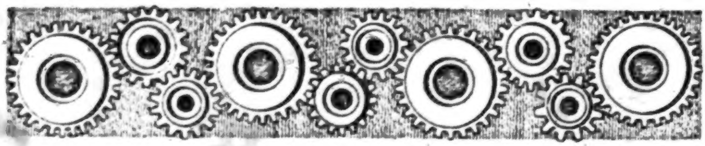
722 until in the final stage the whole country became a battlefield. Thus apart from the considerable consumption of stocks and capital goods owing to war production, there was a great deal of material damage.

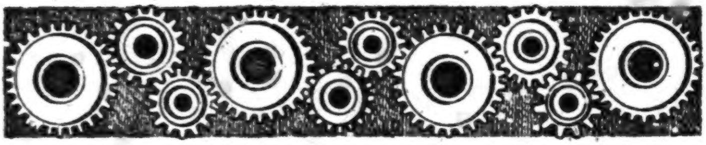
727 438 In addition to the losses directly caused by the war, new restrictions arose for Austrian trade at the conclusion of the fighting. The internal trade links of the country had to a great extent been disrupted through the setting up of four zones of occupation. At a time when in view of the tremendous losses it would have been advisable to ensure the full development of all the means of production, the necessary connections between the various parts of the country could often only be established or maintained under the most difficult circumstances. It is perhaps typical of this period that the various provinces entered into barter agreements with foreign countries independently of one another, often in order to get goods which would have been available within the country itself had unhindered trade been possible.

727 During the first days after the liberation a goods vacuum arose. Transport had almost completely broken down owing to the extensive destruction of roads and bridges and the lack of the necessary vehicles. Clearance and repair work was first necessary before trade activity could develop at all, and if the Allied Forces of Occupation and UNRRA (as well as other help granted by Congress, private charity organisations and credits) had not aided in bridging the gap,

the payment of interest on deposits since the beginning of 1948. On the other hand, credit demands on the banks resulting from the economic revival are so numerous that they are hard to meet, however severely they are scrutinised. This is all the more the case since Austrian industry, owing to the extensive damage and losses suffered by it during the last stages of the war and after its end, has a great need of capital and long-term credit for investments, as well as of business credit. In such cases, where genuinely justified demands for credit are concerned, the Marshall Plan will be of assistance. The main idea of this is to permit the technical modernisation of Austria's system of production, thus increasing her ability to compete in the international field, to encourage full exploitation of her natural assets, and to provide the country with a sufficient amount of raw materials essential to production during a certain initial period. It is to be hoped that this measure will assist Austria to attain economic independence and help towards the re-establishment of her position in international commerce.

The Austrian banks have a further duty indispensable to the security of smoothly running finance in the re-establishment of the Vienna Stock Exchange as the proper market for dealing in shares, not only to serve legitimate private interests but also to prove itself a suitable medium for the State issues which must be expected.





Banking in Austria is carried on chiefly by joint stock banks, some of which have an extensive branch business. A few of the smaller concerns are situated in the provinces. Apart from these there are a number of highly respected banking houses and nine provincial mortgage banks. Two special characteristics of the first named are their ability to give individual attention to clients and their valuable foreign connections. The provincial mortgage banks are public bodies which have the principal duty, apart from other banking transactions, of attending to mortgage and municipal credits, financing the loans they grant through the issuing of deeds of mortgage.

Despite the difficulties still to be encountered in the reconstruction of Austria and its economy, the Austrian banks will continue to place their services at the disposal of the nation's commerce in accordance with their traditions, and to assist in securing for the Motherland a brighter future after long years of impoverishment and peril.

THE AUSTRIAN INSURANCE SYSTEM.

Insurance, with its estimation of risk and liability, of success or collapse, forms a mirror of Austria's development from the First to the Second Republic.

Within the space of not quite thirty years—1918 to 1945—the Austrian insurance concerns were faced with

a food catastrophe would have been inevitable 727 and the work of reconstruction have been indefinitely postponed.

From the outset, everything possible was done 727 to help build up foreign trade again. At first, in view of transport difficulties, only trade with 439 neighbouring countries came into consideration. The initial results were not great, since all these countries were busy with their own reconstruction and usually, themselves needed the goods which Austria wanted. It was only gradually that by means of compensation agreements and later of clearing agreements, the trade relations which in 1938 had been broken off with Austria's most important suppliers and customers could be resumed.

In this way raw materials and auxiliary products as well as the means of production for industry were brought into the country, thus forming a basis for the recovery of industrial-commercial production. With the improvement of food conditions, the power situation and the increasing exploitation of available resources, output again began to rise.

In 1947 it was possible to reach 61 per cent 433 of the industrial production of the year 1937; for the first time in 1948 output rose above 85 per cent of the former figure. Industrial employment [464] figures for 1947 were 19 per cent and those of the year 1948 were about 30 per cent higher than those of 1937.

The most rapid strides in industrial production were first made in the branches more remote from

000

Clemens Holzmeister: Austrian Broadcasting House.

727 The end of the First World War and the fall of the Austro-Hungarian Monarchy had similar paralysing results for Vienna as did the end of the Second World War, when there was not only a collapse of the existing regime, but in addition extensive war damage to be faced. The general reorganisation of the State which took place after 1918 proved less difficult, not only because there had been no actual war damage in Vienna itself, but also because the forces released by the conclusion of the war were not hindered in their development by the pressure of an occupation. Nevertheless, it was years before the Austrian economy and the capital city had so far recovered that it was possible to go beyond efforts to satisfy the daily needs of the population and start constructive municipal schemes.

641 The political revolution of November 1918 secured the full triumph of democratic principles. Universal, equal and direct suffrage, with a secret ballot, was extended to women and, for the first time, applied to the election of members of a Vienna city council. As a result the influence of the masses of citizens which had until then been artifically suppressed now took full effect on the composition of the Council Chamber. Power in the municipal assembly consequently went to the Party of the workers, the Social-Democrats. By securing the majority in the City Council the latter found themselves in a position to put their principles into practice in various fields of municipal activity. During the 15 years after the First World War that the Social-Democrats were able to run the municipal affairs of Vienna, entirely new principles were applied to the administration of public welfare, housing, the conduct of public utility services, the educational system and to questions of personnel. As the basis and support of all these innovations a new financial policy was devised and put into practice. The successful achievements of this exceptionally fruitful period of Vienna municipal administration—it must be remembered that they were not carried out during a period of general prosperity and easy-living,

633
[665]

[665] 643 the Heimwehr against Starhemberg's fascist tendencies. Inevitably, Raab and Starhemberg fell out. Raab left the *Heimwehr*. The communists call Raab a fascist, but that is stupid.

After Parliament was dispensed with under the Dollfuss-Schuschnigg regime, Raab won high repute as founder, organizer, and leader of the *Gewerbebund,* a nation-wide organization of all the trades, crafts, and industries. When Chancellor Schuschnigg made his last desperate attempt to stave off Hitler, he rallied the biggest names in the land around him. He made Raab minister of trade and transport.

After Hitler annexed his native Austria to the *Reich,* Raab was, of course, out in the wilderness. He was never personally persecuted, but he could not risk the family fortune by rejoining their old firm, and he started out on his own, in Vienna. So deep was nazi hatred towards Raab that at the outbreak of the 2nd World War he was formally declared unworthy of wearing a German uniform!

•727 642 645 The Russians entered Vienna in the spring of 1945. Marshal Tolbukhin ordered a provisional government in which the Catholics, Socialists, and communists had to share every ministry. Builder Raab became secretary of state in the ministry for reconstruction, but was vetoed by the Russians as a minister in Figl's cabinet.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

648 to stand on her own feet. But the doubts about Austria's viability were not silenced. On the contrary; they were raised with increasing insistence in at least one quarter: amongst the Pan-Germans in Germany and in Austria. To-day, we see more clearly, perhaps, than ever before how the arguments against Austria's economic independence were used to further Germany's imperialist designs, both before and after Hitler's access to power in Germany.

It was not without effect. The constant repetition of the same argument weakened Austria's power of political and economic recuperation and progress.

Nor, as we have seen, has this propaganda failed to make headway elsewhere. The doubts of 1920 still linger on. 121 If, in the following pages, we tell the story of Austria's economic development in her twenty years of independent existence, this is not only to show what has been achieved, and what lessons need to be drawn from the experiences and mistakes of the past, but also to destroy finally the myth of Austria's "inability to live".

•727 At present, there are naturally many initial difficulties to overcome before Austria will become prosperous and 433 economically healthy. These difficulties, however, are simply consequences of a process of looting in the course of seven years during which Austria was harnessed to the German war economy, and of heavy destruction wrought during the last phase of the war. Disruption of transport and traffic, acute shortage of food and other essentials, temporary isolation from the outside world—these are consequences of war which Austria shares with all states of Europe which had been under German rule. It is absolutely clear that without large supplies of food and fuel Europe as a whole will barely be able to live through the first years of peace. Thus, in Austria, too, all available

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

energies will have to be directed to securing by improvisation the bare means of existence and survival. Even after the initial period only a gradual progress in reconstruction is to be expected. This book does not intend to deal with the difficult and manifold problems of the immediate post-war emergency measures. It has a wider aim. It proposes, by a critical study of the inter-war period, to outline more generally how Austria, by harnessing all her resources and adapting herself to their best possible use, is able to attain prosperity and to keep pace with a corresponding process of world economy.

4/33 727 ● /21

Before turning to the development of the inter-war years, however, a few words should perhaps be said about Austria's natural resources and about her economic development before the last war.

NATURAL RESOURCES

311 [123]

Austria, like Switzerland, is a mountainous country, and so the scope for agriculture is naturally limited. Only 28 per cent of the total area is arable land, while another 30 per cent is taken up by permanent meadow and pasture. This compares with 47 and 18 per cent respectively for Czechoslovakia, 68 and 19 per cent for Hungary (a typical agricultural country), while the percentages for Germany[1] are 46 and 17 and for the United Kingdom[2] 24 and 31 respectively. Accordingly, Austria belongs to the industrial and food-importing nations of Europe. Even so, her soil and climatic conditions have favoured the growth of certain special branches of agriculture, such as those connected with milk and milk products and fruit growing.[3] In these fields an export surplus had been achieved by the beginning of the thirties.

311 /137

"Land not under cultivation" takes up as much as 42 per cent of the total. That 42 per cent represents, how-

[1] [In 1930, i.e. exclusive 5 of the Saar Territory]

[2] [Figures for 1937]

[3] [Cf. Cat. 116, p. 12 -- Analyst]

CHAPTER II

THE BIRTH OF A NEW REPUBLIC: EARLY DIFFICULTIES

AUSTRIA'S EXHAUSTION AFTER THE GREAT WAR

• 727 FROM the moment of birth of the new Austrian Republic, on the 12th November, 1918, it was clear that this small country, descendant of the old 50 million Empire, was faced with a colossal task of economic and political readjustment. But this was not all. By 1918 the old Monarchy had ceased, in every sense, to be a "going concern". This rendered the resumption of normal economic life particularly formidable. For in addition to the loss of capital and of human life invariably associated with war, the cumbersome working of the Habsburg bureaucratic machine, the antagonism of the suppressed minorities, and above all the ruthless military and economic exploitation of the half-hearted Austrian war partner by the "efficient" German war machine, had all exhausted the entire economic life of Austria.

722 It had become clear, as early as 1916, that the Empire was unprepared for a long war on two fronts and unable to cope with the growing difficulties of internal inefficiency and of the blockade. By 1917 the economic and military position was so serious as to prompt the Emperor Karl to explore the prospects of a separate peace. These attempts were however quickly frustrated by the then all-powerful Germans.

722 Shortages now appeared in every field. Owing to the
433 dearth of raw materials, the indiscriminate call-up policy

722 further. There were cases when soldiers "deserted" from their training barracks to the front line because there rations were at least somewhat larger.

When finally peace came to the war-weary country, 727 economic conditions, instead of improving, actually 453 became worse. The economy was now completely disrupted, mainly because the new Austria was suddenly cut off from all normal sources of supply. Austria had habitually had an import surplus with the other parts of the Empire. Now these channels of supply were almost hermetically closed through the newly erected national frontiers. The new countries had their own serious problems of reconstruction and were of course unwilling to export important raw materials except on a strict barter basis. But in those days there was pitiably little that Austria could offer in return.

727 The result was that everything was short—food, coal, raw materials—and many sections of economic life came practically to a standstill. The position of the population became worse; in Vienna, particularly, conditions were desperate. Not only were the usual supplies from Hungary and Bohemia no longer forthcoming; the rural provinces of Austria proper, too, withheld their produce so as to cover their own shortages. Also, war-requisitioning and the lack of industrial goods had made the peasants suspicious and hostile towards the capital. The food situation in Vienna quickly became hopeless. From August to December, 1919, the maximum obtainable per day on the bread and flour ration was 100 to 170 grammes of flour. Milk supplies (which had amounted to 900,000 litres daily before the war) dropped to as little as 30,000 litres. Even infants and invalids had to go short of milk. After more than three years of hard work and malnutrition these shortages could not but have the most damaging effects on

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

health. The death-rate soared.[1] A large number of people 727 • were carried off by the influenza epidemic of 1919. In the same year, the mortality among Viennese schoolchildren was 60 per cent higher than in 1913. Deaths from tuberculosis for young people between the ages of 16 to 21 years rose by 160 per cent.

Outside help was obviously needed if serious famine 727 conditions were to be averted. Private philanthropic organizations, particularly in the United States and Great 457 Britain, at once organized relief measures, and the Netherlands, Scandinavian countries, and Switzerland offered hospitality to Austrian children on a generous scale. But this was merely a drop in the ocean. A problem of this order could not be solved by private charity. The hopes of the Government therefore turned on the Hoover Mission with its considerable command of food supplies. In December, 1918, the Austrian Government succeeded in getting an advance of 4,000 tons of cereals; though in the circumstances this was entirely inadequate. Negotiations were then begun; but in spite of the catastrophic conditions in Vienna they were protracted owing to Austria's inability to procure the required means of payment; and also because Mr. Hoover's food policy was partly used as a means of influencing the internal politics of the destitute countries. In February, 1919, at last, relief credits were granted to Austria to the tune of $24 million from the United States and $16 million from Great Britain, France, and Italy (who in turn borrowed this money from the United States), and from the middle of March onwards, 1,000 tons of foodstuffs were delivered daily. In April this amount was increased to 1,800 tons daily.

The available credits soon proved inadequate and additional relief credits were provided by the same group

[1] [IN late 1919--ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

457 of countries and also by the neutral states. Altogether, 727 between 1919 and 1921, relief credits to the value of about £27 million were given to Austria, of which £9 million came from Great Britain, the largest single lender. These relief credits were secured by a mortgage, with priority over all other charges, on Austrian State property.

But while the relief of the food situation was the most 433 pressing need, the plight of the industrial sector was no 727 less serious. All coal supplies from Bohemia and Upper Silesia were, at first, cut off. The domestic coal ration was 15 kg. per family per week, and even this was not always available. On the main line from Vienna to Salzburg there was only one slow train per day. It stopped at every station, and its time of arrival was anyone's guess as the breakdown of the old rolling-stock and the lack of coal caused frequent and lengthy hold-ups. Often the travellers had to walk beside the train because the locomotive could not pull the load over a steep hill. Of the blast furnaces in Upper Styria only one could be kept working; and that at a time when there was an enormous need for all basic materials. In fact, practically all important raw materials were in short supply. In consequence production had to be cut down or stopped altogether. [457] The amount of supplies from abroad was determined by so-called "compensation treaties": barter agreements on a strictly quantitative exchange basis. There were further complications. For instance, until the rolling stock of the old Monarchy was finally divided up among the various "Succession States", all goods had to be unloaded at each frontier station, as no state would allow its waggons to leave their own territory. This tended to raise costs and to cause greater delay, reducing still further the already meagre flow of goods.

It is, therefore, not surprising that in its initial stages

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

production was in a chaotic state and could not absorb the 433
men who came back from the army and from the munition 727
industries. Unemployment, which had been at a level of
about 46,000 in December, 1918, rose quickly to a peak of 727
186,000 (131,500 in Vienna) in May, 1919,[1] at the very 464
time when the Western democracies enjoyed a short-lived
post-war boom. After that, unemployment decreased
steadily until it reached its lowest level in November, 1921,
when there were 8,709 unemployed on the register.

THE INFLATION

The extent of Austria's economic exhaustion after the 727
last war has been deliberately described at some length so as to indicate the level from which reconstruction had to start. No doubt, it was a tremendous job. But, with the relief credits to help out in the first period of distress, it was surely not beyond the strength of the Austrian people to build up a working economy. The tens of thousands of workers who struck work in January, 1918, in order to finish the war, the soldiers who returned disgusted with the war and the old régime, the peasants who had more than enough of the constant military requisitioning, all combined to turn out the Emperor, practically without any bloodshed; and they now looked confidently to the new Republic to lay the foundations for a new life.

There was much enthusiasm here that could have been 186
harnessed to a great crusade for the rebuilding of the
nation's life. But it was the tragedy of the situation that 665
the statesmen of the day, those of the right and those of the left alike, completely lacked the required conception of leadership. Instead of stimulating the patriotic and social aspirations of the masses and guiding them in the difficult tasks of reconstruction, the general attitude of the leading politicians, reared in a 50-million empire, was to profess

[1] [Cf. CAT. 1/b, p. 34 — —ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

648 foreign labour to Austria,[10] 1 and also by making much
728 fuller use of Austria's resources than ever before. Indeed,
433 the organization of a war economy has revealed the
471 potential wealth of Austria—as of other countries—
showing what could be achieved in peace time if only
proper use were made of existing opportunities.

The increase in production, however, was also achieved by eating deeply into Austria's resources. In many cases it will take years before the damage can be repaired, if indeed it can be repaired at all. In the case of timber, for instance (an extremely important export commodity in Austria), a reckless policy of exploitation has undone many years' work of careful afforestation. The intensive cultivation of the soil and the lack of artificial fertilizers and of animal feeding-stuffs has had the most damaging effects on agriculture. Up to the middle of 1942 harvests and herds of livestock were maintained at the pre-war level; but the position has greatly deteriorated since then. 1943, in particular, was a bad year and large numbers of livestock had to be slaughtered.

The increase in the output of oil in Zistersdorf from about 30,000 tons in 1937 to something like 1 million tons (which is considerably more than Austria's total peace-time requirements) may, it is feared, have dangerously exhausted these valuable resources. Similarly, the rate of exploitation of the iron ore deposits reached an undesirably high level.[11] 1/A

• 727 Our provisional economic balance sheet would not be complete without remembering the tragic destruction of manpower: the thousands of Austrians killed in Hitler's war and the many brave men and women done to death in concentration camps and at the hands of the executioner.

1/A [CR CATEGORY 11b, P. 92 -- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

CHAPTER VII

FUTURE PROSPECTS

AUSTRIA is to-day faced with economic problems 727
similar to those of the other liberated countries of Europe. The damage caused by air-raids, fighting, sabotage, and destruction by the Germans will have to be repaired. Large arrears of repair and replacement in building and capital equipment will have to be made good, while the transition from a war economy to peace production is presenting formidable problems of its own.

The damage which Austria's economy suffered in seven years of German occupation and six years of war is, of course, very considerable. Nevertheless, the chances for recovery and a relatively short transition period are in many ways better now than they were in 1918. First, the lightning speed with which the Red Army descended on Vienna and the important industrial districts surrounding it, have allowed Austria and Vienna to escape the disastrous destruction experienced by Budapest, Warsaw, and many German towns. Secondly, Austria is not, this time, faced with the tremendous task of changing the economic structure of the metropolitan province of a great empire into that of a small, independent state. There is now no overgrown state apparatus and no heavy burden of pensions on that score. Thirdly, there are new opportunities for 648
firm bonds of friendship between Austria and her neighbours, Czechoslovakia and Yugoslavia, and also with the other nations in south-eastern Europe, and there is every promise of fruitful economic co-operation between them.

648 The suspicions of 1918 against Austria as the centre of
Habsburg power has given way to a feeling of common
interest after the common experience of German oppres-
sion. Fourthly, the destruction of Germany's political
and economic power will, for the first time, allow Austria
to re-build and develop her economy freely and without
the defeatist and destructive interference of German
• 727 business and its Pan-German friends in Austria. Last
but not least, Austria's prospects of recuperation are
186 better than in 1918 because Austrians themselves have
642 changed. The experience of twenty years—not very easy
ones, to be sure—of an independent Austria and of the
subsequent catastrophe of seven years of German occupation have cured them of such *Anschluss* ideas as they may have had. They are firmly determined to have their own independent country and to maintain its independence. A healthy and constructive Austrian nationalism has developed in place of the defeatism and lack of confidence of the inter-war period. The active part which many Austrians took in the liberation of their country, and the speed with which Austrians of all parties came together and formed a Provisional Government of national unity is a hopeful sign for the future. Austrians have started to learn to take their fate into their own hands and not to rely solely on foreign help for their salvation. This change of outlook, if it can be preserved and fostered, cannot but greatly assist the reconstruction of the country.

600 In spite of the extreme seriousness of the present position, then, the outlook for the transition period is quite hopeful. In the first stages a certain degree of foreign help for relief and rehabilitation is, of course, absolutely essential. But if it is given speedily, without the delays and political interference which were such an unfavourable feature of the Hoover Mission in 1919, and